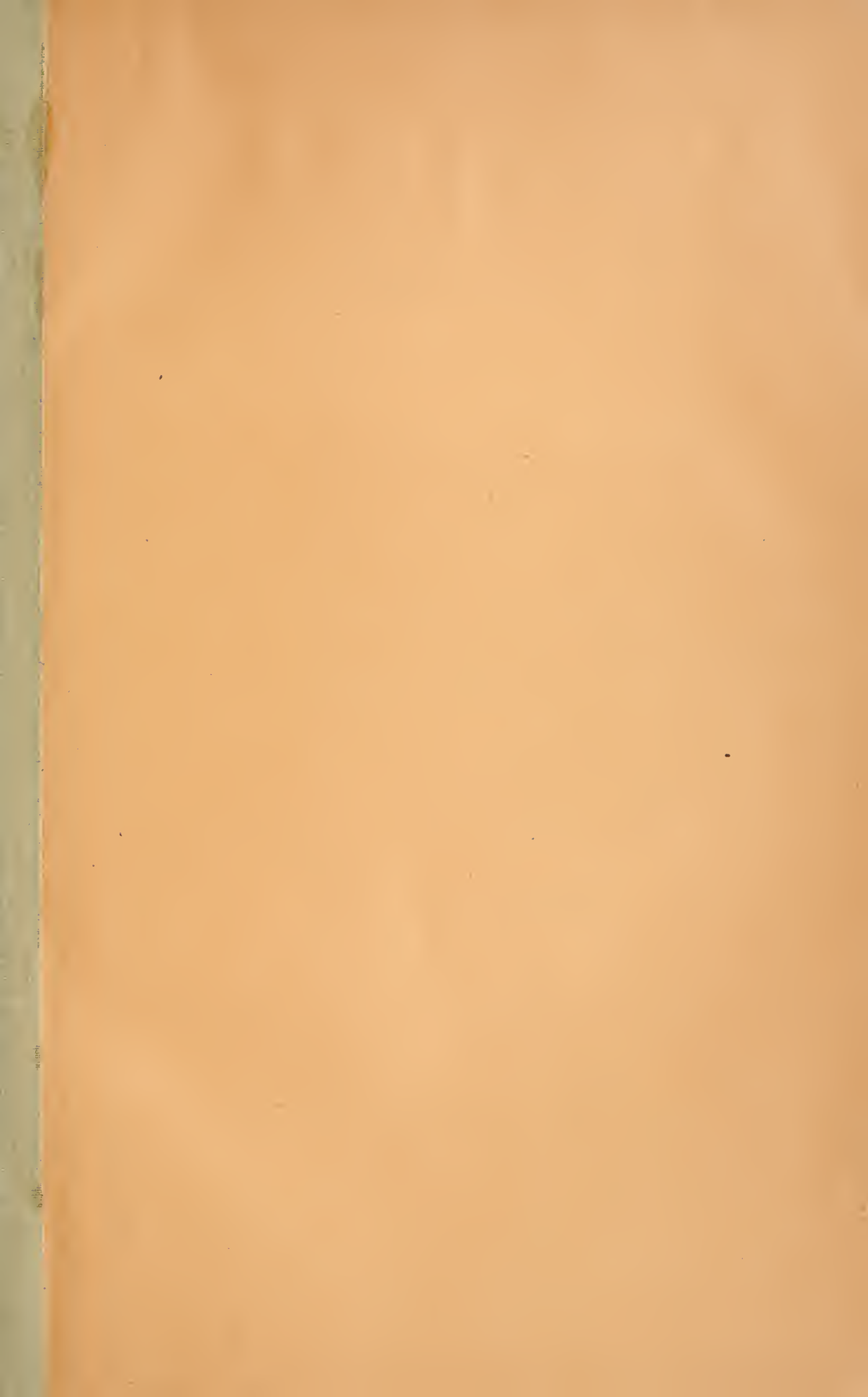


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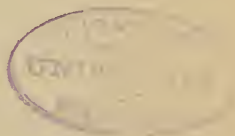
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NO. 1. PUBLIC DEBTS IN CANADA

BY J. ROY PERRY



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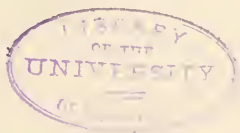
BY J. ROY PERRY, B.A.,

RAMSAY SCHOLAR IN POLITICAL SCIENCE IN THE UNIVERSITY OF
TORONTO, 1896.

WITH A PREFACE BY

JAMES MAVOR,

PROFESSOR OF POLITICAL ECONOMY AND CONSTITUTIONAL HISTORY
IN THE UNIVERSITY OF TORONTO.





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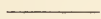
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P R E F A C E .



The Ramsay Scholarship in Political Science for 1896 was awarded to Messrs. J. R. Perry and F. B. Proctor, whose papers were regarded as equal. The following essay by Mr. Perry is an expansion of the paper submitted in this competition. A former series of studies in Political Science, instituted in 1889, comprised four essays, and is continued by the present publication.

No connected account of Public Finance in Canada had as yet appeared; and it seemed advisable to embrace the opportunity afforded by the Ramsay Scholarship to induce graduates of the University to work in this field. The two papers in question not only serve to indicate the sources of information, but offer a fairly compact mass of detail for the use of the economic student. The special feature of Mr. Perry's paper is the view he gives of the investment by the various administrative authorities of public money in public works. The absence, except in the case of the North-west rebellion in 1885, of military expenditure, and the absence of any costly permanent military establishment have enabled Canada, since Confederation in 1867, to devote the resources of the country to the further development of these resources. The very considerable debt of the country is therefore more than offset by tangible assets in the form of roads, bridges, canals, railways and public buildings. It is true that in some cases due economy has not been observed in the expenditure of public money, and that the political pressure of localities has sometimes been exercised in inducing the government to undertake unprofitable enterprises: but this is not true of the bulk of the expenditure, which is really



represented by works that are directly or indirectly remunerative. If these studies on public debts are read in connection with the account of the tariff by Mr. (now Professor) Maclean, no. 4 of the former series, and with other forthcoming studies on related topics, a fairly accurate view of the finances of the Dominion will be obtained. The considerations which emerge from these studies are important rather in their historical or practical than in their theoretical aspects. Yet illustrations may be found of the effects in a highly democratic government of a more or less deliberate employment of the machinery of the state in promoting enterprises involving a large expenditure of capital for a remote or even problematical return. It is a question, which it would not be proper to discuss with the data as yet at our disposal, whether or not the habit of appealing for governmental aid has checked independent enterprise or has made the subsequent development of such enterprise possible by, as it were, clearing the ground for it. Perhaps the most remarkable feature of the Canadian policy of development is the extent to which the government has grappled with the problem of communications. The immense length of Canada in proportion to its effective width and the sporadic character of the settlement of the country, especially in the prairie regions, presented entirely novel problems in communications. Private enterprise could hardly be expected to be adequate to the task, excepting under conditions which might have resulted in the practical abandonment of the country to the capitalists who might engage in so hazardous a series of adventures. What has been done has been to unite the forces of the state with those of private corporations; and if the terms have sometimes appeared too onerous so far as the state is concerned, it is hard to avoid the conclusion, that time is after all the chief consideration, and that development speedier than would otherwise have taken place may not, after all, have been too dearly purchased.

The success of the system plainly depends upon a nice balance of local and central power on the one hand, and a similarly nice balance of governmental encouragement and reserve control on the other.

The diminution in the rate of interest upon public securities is an immense advantage to new countries whose borrowing capacities are necessarily large. So long as the capital borrowed by Canada from Europe is wisely expended upon productive enterprises or upon the preliminary necessities for these, and so long as the interest of the debt can be easily met, there does not seem much likelihood of the adoption of any drastic system of redemption of debt. Yet the period of great railway and other enterprises is probably for the present over. The expenses which ensued upon Confederation have been largely already incurred. The transcontinental railway has been built, the Dominion and Provincial public buildings have been erected, and although the demands upon the government for expenditure do not cease, yet it is unlikely that the ensuing thirty years will witness an expenditure on capital account of sums equal to those which have been expended since 1867.

JAMES MAVOR.

PART I.

FEDERAL DEBT.



PUBLIC DEBTS IN CANADA.

PART I.

FEDERAL DEBT.

THE history of the public debt of the Dominion of Canada begins with the confederation of the provinces on July 1st, 1867. Before that date, it is true, each of the three provinces, Canada, New Brunswick, and Nova Scotia, had accumulated a burden of debt, which in the case of the first named reached the considerable sum of over \$73,000,000. By the terms of the British North America Act, however, the Dominion assumed these debts, with the exception of some \$10,500,000 of the indebtedness of the province of Canada. It is, therefore, not incorrect to say that in 1867 the Dominion commenced, and the provinces recommenced, their financial as well as political history.

The principle of debt allowance.—The public debts of the several provinces had, with some slight exceptions, been incurred for public improvements, intended to develop the resources of the country, to attract immigrants, and to provide cheaper means of conveying farm products to the markets.¹ In the year 1866 the amount of debt per head of population was \$26.82 in the province of Canada, in New Brunswick \$22.62, and in Nova Scotia \$14.68.² In order to make an equitable arrangement, the incidence of debt *per capita* was taken as the basis of adjustment. Each province was to be entitled to throw upon the federal government a debt equal to \$25.00 per head of its population, and should the debt of any province exceed this amount, it was to pay interest on the excess to the federal treasury. On the other hand, should the debt be less than \$25.00 per head, the province was to receive interest from the federal treasury on the difference between its actual debt and the amount which it was entitled to charge against the federal government.³ By this plan Ontario and Quebec were

¹ Speech of Hon. A. T. Galt. "Confederation Debates," page 65.

² Speech of Hon. D'A. McGee. *Ibid*, page 140.

³ Speech of Hon. George Brown. *Ibid*, page 93.

enabled to enter the union with a joint allowed debt of \$62,500,000. The debt of the province of Canada assumed by the Dominion was to be reduced to this amount by leaving debts of a local character, such as the Municipal Loan Fund, to the provincial legislatures. It was further provided by the Quebec Resolutions that Ontario and Quebec, in assuming the excess of debt of the old province of Canada, became entitled to withdraw from the general assets all those items of a local character for which a portion of the debt had been incurred.¹

Objections.—That this financial scheme of union met with considerable opposition, can be seen by reference to the confederation debates. The Hon. Mr. Seymour, of Ontario, did not think the allotment of debt allowance according to population a fair method. "If," he said, "New Brunswick, with an annual revenue of one million dollars, be allowed to put a debt of \$7,000,000 upon the confederation, then, upon the same rule, Canada should enter the confederation with all her debt and more. The estimated revenue of Canada is \$11,000,000. Any one can figure it out and see that Canada should have no debt left for local governments to pay."² The Hon. Mr. Dorion, a leader of the members from Lower Canada, criticized the scheme as unjust to his province. "In 1841," he stated, "Lower Canada entered the union with a debt of £133,000. Since 1841 there has been spent in Lower Canada, for the Beauharnois canal, the enlargement of the Lachine canal, the works on Lac St. Pierre, and the Chambly canal, about \$4,000,000, about \$8,000,000 for railways, and \$1,000,000 more for other works. This \$13,000,000 worth of public works is all that there is to show for the increase of debt from £133,000 at the time of union, to \$27,500,000, which is the Lower Canada proportion of the \$62,500,000 of public debt Canada now brings into the union."³ A third objection was that no definite division between Ontario and Quebec was made of the excess of the debt of the province of Canada. An amendment was proposed by the Hon. Letellier de St. Just to the effect that "the address to Her Majesty to unite the colonies be postponed, until the government shall have made known to this House in what manner it intends to divide between Upper and Lower Canada the balance of debt, and what will be the items assigned to each province."

¹ A. T. Galt. Confederation Debates, page 66.

² *Ibid*, page 199.

³ *Ibid*, page 260.

The amendment was, however, defeated on a division, by 38 to 20.¹ The delegates from the maritime provinces to the Quebec conference had made the building of the Intercolonial railway an imperative condition of union. The engagement to build this road was another cause of opposition. One of the members spoke prophetic words when he said of the enterprise, "The road will be a drag. I say, honourable gentlemen, that we are opening an account without knowing when it will be closed. By engaging in the construction of the Intercolonial, and by the assumption of the New Brunswick and Nova Scotia lines we are entering on indefinite liabilities, the whole being a non-paying property in which we shall find a heavy bill of expense."²

Provincial allowances at confederation.—In spite of opposition the financial scheme of confederation was carried through as originally projected. By the terms of the Act of union the Dominion assumed debt for the provinces as follows:—

Province of Canada	\$62,500,000
New Brunswick	8,000,000
Nova Scotia.....	7,000,000
Total.....	<u>\$77,500,000</u>

The interest on the debt in 1867 amounted to \$1.29 per head of the population. The interest on the debt of New Zealand at the same date was \$6.02; in Queensland the figure was \$4.97, and in Victoria \$2.88.⁴

Thus, in 1867, the foundations of our national debt were laid, and its growth may be said to have been rapid. Throughout its whole history, however, it will be found that apart from allowances to provinces the cause of yearly additions to the federal debt has invariably been expenditure on the construction of public works. The war-expenses of Canada have been insignificant; her outlay on railways, canals, and public buildings has been immense, and it is this characteristic that affords a basis for a convenient division of the history of our debt since 1867. The building of three great works has been chiefly instrumental in the growth of debt since confederation, and their construction marks three periods in its history. The first of these periods extends from 1867 to the end of the fiscal year 1875, during which time the Intercolonial railway

¹ Confederation Debates, p. 189.

² Hon. Mr. Reser. Confederation Debates, p. 165.

³ British North America Act, sect. 112-118.

⁴ Budget speech, Hon. John Rose, 28th April, 1868, p. 7.

was built at a vast expense. The second extends from 1875 to 1885 inclusive, and has for its prominent feature the liability incurred in the building of the Canadian Pacific railway. It was at the end of this period that Canada's capital expenditure reached its highest point. The third and last period, 1885-1895, is marked by the outlay of large sums on the completion of our canal system, and at the same time shows a steady decrease in the annual growth of the debt.

First period, 1867-1875.—The eight years ending 30th June, 1875, might appropriately be called the "fat years" of our financial history, for during that time the budget, perhaps as a result of "good times" induced by confederation, showed an annually recurring surplus. These surpluses in Consolidated Revenue account varied from \$201,835 in 1868 to \$3,712,479 in 1871, and helped materially to prevent a too rapid increase in debt during the period.¹ It is worthy of note that the days of the fifteen per cent. tariff (1867-1874) correspond with this period of prosperity in our national finances.

Intercolonial railway.—As has been noted above, the building of this railway was the salient feature in the first period of the history of federal debt. The construction of this work was an express stipulation of the Act of union,² made in order to induce the maritime provinces to enter confederation. In pursuance of the terms of the Act, a commission was appointed by order-in-council, dated 11th of December, 1868, to construct and undertake the management of the railway, and by July 1st, 1876, the whole road was opened to traffic. During these years the capital expenditure on the construction of the railway thus saddled on the country reached a total of \$22,488,845, the largest sum for any one year (\$5,131,141) being spent in 1872.³

Additional allowances to provinces.—Next in importance in its effect on the public debt was the large amount of provincial debt assumed by the Dominion during this period. The first of these additional allowances was made in 1869, when, in consequence of the protests of Nova Scotia against the financial arrangement made for that province in the Act of union, an Act was passed increasing her debt allowance from \$8,000,000 to \$9,186,750.⁴ In

¹ Public Accounts, Canada, 1895, p. lxxi.

² British North America Act, 1867.

³ Report, Department of Railways and Canals, 1895, Appendix I, p. 20.
32-33 Vict. chap. 2.

the following year the province of Manitoba was carved out of the North-West territory and admitted to confederation, and for that province a debt of \$472,090 was assumed.¹ In 1872 an additional burden of provincial debt was assumed when British Columbia was admitted to the union. The terms² were, that British Columbia, "not having incurred debts equal to those of the other provinces then composing the union," should be entitled to receive interest at the rate of five *per centum per annum* on the difference between the actual amount of her indebtedness *per capita* and that of the *per capita* debt of Nova Scotia and New Brunswick (\$27.77), the population of British Columbia being taken at 60,000. By virtue of this arrangement the Dominion assumed \$1,666,200 of debt on behalf of the western province. The climax was reached in 1873, when, in consequence of additional debt assumed by Canada on behalf of the provinces, the federal expenditure chargeable to capital attained the highest point in our history, with the exception of that of the year 1884. Agitation had been going on for some years in Ontario and Quebec against the payment of interest on the amount by which the actual debt of the old province of Canada exceeded the allowed debt under the Act of union. In 1873, the matter having been pressed at Ottawa, an Act³ was passed, the terms of which were as follows: "In the accounts between the several provinces of Canada and the Dominion, the amounts payable to, and chargeable against, the said provinces, in so far as they depend on the amount of debt with which each entered the union, shall be calculated and allowed as if the sum fixed by the 112th section of the British North America Act, 1867, were increased from \$62,500,000 to the sum of \$73,006,088.84; and as if the amounts fixed as aforesaid, as respects the provinces of New Brunswick and Nova Scotia, by the British North America Act, 1867, and as respects the provinces of Manitoba and British Columbia by the Acts by which they were admitted to the union, were increased in the same proportions." Under this Act, \$13,859,079 of debt was assumed by the Dominion in 1873. In the next year \$4,701,050 more was assumed on the admission of the province of Prince Edward Island, with an allowed debt of \$50 per head of population.

¹ Manitoba Act, 1870.

² Order-in-council, May 16th, 1871. Statutes of Canada, 1872, p. 81.

³ 36 Vict. chap. 30.

⁴ Order-in-council, Windsor, 26th June, 1873.

It is somewhat difficult to reconcile these additional allowances with the provisions of section 118 of the British North America Act, and they gave rise to much discussion in the Dominion parliament, especially during the session of 1869, on occasion of the allowance to Nova Scotia. In spite of criticism and objection, however, the Acts making the allowances were passed, and, as a result, a total of \$21,885,175 was added to the federal debt.

Other items of expenditure.—The increase in the debt for the fiscal year 1869-70 was \$2,350,423.¹ The chief cause of this increase was the expenditure of \$1,821,887 on the acquisition of the North-west territory from the Hudson's Bay company.² During the next ten years more than a million dollars was spent in its development, but expenditure under this head then ceased until 1885, the year of the rebellion.

During the first period the cost of canal construction was small. In 1870 and 1871 nothing at all was spent, while the largest expenditure for any one year only came to \$1,714,830.³ Out of a total of about \$3,750,000 expended during these eight years on the building of canals, more than one-half, or \$1,985,084, was absorbed by the Welland canal, while the cost of the Carillon and Grenville canal was \$883,578.⁴

Loans.—In 1869 the finance minister⁵ floated an "Intercolonial Railway Loan" on the London market, amounting to £2,000,000, of which £1,500,000 was guaranteed by the imperial government. It seems that the disposition of the proceeds was not wholly in accordance with the original purpose, for in the session of 1869 the finance minister was criticised, and asked to state what had become of the money raised. In reply he gave the following statement:—⁶

Invested in Intercolonial Railway sinking fund	\$ 270,500
Paid off imperial loan	681,333
Paid off advances Baring and Glyn	983,562
Paid off Bank of Montreal	2,500,000
Balance to Ontario government	500,000
Redeemed 7% debentures	873,000
	5,808,595
Total redemption	5,808,595
Invested temporarily in Bank of Montreal	1,500,000
Still in agents' hands	2,974,408
	\$10,283,003

¹ Public Accounts, Canada, 1895, p. lxxi.

² *Ibid.* p. lxix.

³ *Ibid.* p. lxix.

⁴ Report, Department of Railways and Canals, 1895, Appendix I, pp. 7, 8.

⁵ Hon. John Rose.

⁶ Budget speech, Hon. John Rose, 1869, p. 14.

In 1872 it was enacted,¹ that any loans authorized by parliament, unless the manner was specially fixed by the Act, might be raised by the issue of six per cent. debentures, by the issue of Dominion stock bearing not more than six per cent. interest, by the granting of terminable annuities, based on a rate not exceeding six per cent., or by the issue and sale of exchequer bonds or bills of not less than \$400.00, at the same rate of interest. A sinking fund might be provided for loans raised by either of the first two methods. Further, it was provided that the governor-general-in-council might change the nature of any portion of the debt, with the consent of the holders of the securities affected, provided that the public burden was not thereby increased, but the capital might be increased proportionately, by the substitution of five per cent. Dominion stock for other securities. The governor-general-in-council was authorized to raise temporary loans for periods not exceeding six months, bearing not more than seven per cent. interest, to meet deficiencies in the Consolidated Revenue fund. Under this Act the funded debt of Canada was regulated from the year 1872.

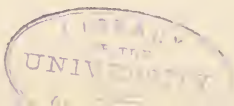
In the next year Canada negotiated a guaranteed loan of £1,800,000, of which £1,500,000 was for the Intercolonial railway, and the balance for the acquisition of Rupert's Land.²

In 1874 a Liberal government came into power for the first time since confederation; but as debts and obligations do not die with governments, one of the first duties of the new finance minister was to borrow £4,000,000, of which \$10,000,000 was used to pay off debt maturing.³ The large amount of this loan, and the expediency of Canada borrowing on her own unaided credit, as was done in this case, were two points which gave rise to criticism during the session of 1875. Referring to the former, the finance minister declared that the amount of debt maturing, together with increasing expenditure on capital, made it desirable to borrow largely, especially as Canada had appeared in England as a borrower in 1873; for if she were compelled to come again in 1875, for the third time in three years, it would be prejudicial to the interests of the country. This objection to frequent loans was urged by the minister as a strong argument against the attempt to build a Canadian Pacific railway, as projected by their predecessors in office. For, should the government decide to proceed with this gigantic and in the

¹ Statutes of Canada, 1872, chapter 6.

² Public Accounts, Canada, 1895, p. lxxv.

³ Budget Speech, Hon. R. J. Cartwright, 1875, p. 10.



eyes of the finance minister impracticable undertaking, and at the same time continue the expenditure on the construction of other public works, he estimated that no less than \$200,000,000 would be required. In other words Canada would be compelled to go to the London market as a borrower of \$30,000,000 in each of the seven years, within which the railway was to be built. "There may be some honourable gentlemen in the House, who think we shall be able to do this," exclaimed the finance minister "but if so, I envy them their faith in the future of the Dominion."¹

Past and future, 1875.—In 1867 the net debt of Canada had been \$75,757,134, and at the end of the fiscal year 1874-75 it stood at \$116,008,378.² This was an increase for the period of \$40,251,244, or, to put it in another way, an average annual growth of \$5,031,405. The total amount, however, spent on construction of public works and allowed to provinces was \$52,987,359,³ or over \$10,000,000 more than the increase in net debt. Although this was not unsatisfactory, the outlook for the future was not reassuring. The country had undertaken works which would necessitate a very great increase in the debt. The sum estimated as necessary to complete the Intercolonial railway was \$10,000,000; \$30,000,000 more was wanted for the Canadian Pacific railway; while the canal system, planned by the government, would require at least \$20,000,000. Against this there was an imperial guarantee for £2,500,000, given in lieu of Fenian claims, another for £1,500,000 for construction of the Intercolonial railway, and another for £300,000 for the purchase of the North-west. In addition, the imperial government had, in 1873, assented to the transfer of a "Fortifications Guarantee," amounting to £1,100,000, to the construction account of canals and the Canadian Pacific railway. These sums made a total guarantee for £5,400,000, or some \$26,000,000, which Canada could obtain at four per cent. On that debt there would be an annual interest charge of \$1,040,000, and on the remaining \$34,000,000 at five per cent., an interest charge of \$1,700,000. For a sinking fund of one per cent., \$600,000 would be required yearly, and for commission on interest, \$27,000. Thus a total annual debt charge of \$3,367,000 was to be added to the country's expenditure, within the next few years. Such was the outlook in 1875, when Canada entered upon the second period in the history of her debt.

¹ Budget speech, Hon. R. J. Cartwright, 1874, p. 8.

² Public Accounts, Canada, 1895, p. xxx.

³ *Ibid.*, p. lix.

Second period, 1875-1885.—The financial history of the decade, 1875-1885, falls into two parts. Five years, 1875-1880, form a period marked by loans and deficits, while the next five years exhibit a renewal of prosperity, which beneficially affected the national budget. The financial difficulties of the years 1875-1880 were the result of a depression world-wide in its extent, which diminished trade, and thus sapped the source of revenue. At the same time a change was made in the Canadian tariff. The government that was returned to power in 1874 declared for a “tariff for revenue only,” and a general rate of $17\frac{1}{2}$ per cent. was imposed, from which more than half the revenue was expected to be derived. A great falling off was the result of this arrangement. In six months, ending December 31st, 1875, there was a decrease in importations of \$10,700,000, and consequently a decrease of \$1,860,000 in the revenue obtained by the $17\frac{1}{2}$ per cent. tariff. In 1878, the normal customs revenue had diminished by \$3,000,000, and the imports by one-third, a reduction *per capita* of importations from \$35.25 to \$25.50.¹ The effect of these circumstances is seen in the succession of deficits, occurring in each of the years 1876 to 1880 inclusive, not one of which was less than one million dollars, while in 1876 and in 1879 almost twice that amount was reached. Such a condition of things not only precluded any assistance from Consolidated Revenue Fund towards a reduction of the debt, but also went far towards making up the gross debt of \$40,000,000, which was placed on the country during these years.

In 1878, the National Policy, which had protection to Canadian industry as its chief feature, was brought into force. A little later, a revival of trade succeeded the depression of the past few years, and the “good times,” thus roughly coincident with a changed tariff, soon placed our national finances in a satisfactory condition. In 1882, for example, the estimates provided for a surplus of \$4,000,000, but the real surplus exceeded that amount by \$2,000,000; and in 1883, it reached the extraordinary figure of \$7,064,492.² The financial history of the years 1881 to 1885 is in strong contrast to that of the first five years of the decade, and their effect upon the public debt was correspondingly different.

The Canadian Pacific railway.—The second stage in the history of the national debt is marked by the building of the Canadian Pacific railway, which was begun in earnest in 1875, and practically

¹ Budget speech, Hon. R. J. Cartwright, 1878.

² Public Accounts, Canada, 1895, p. lxxi.

completed in 1885. During these ten years such vast sums were spent annually on the enterprise as to make it by far the most important factor in the building up of our debt. In 1876, the expenditure under this head amounted to \$3,346,576; in 1881, it was nearly \$5,000,000;¹ and yet, after a total cost to that date of over \$30,000,000, the road was not half completed. It was therefore considered advisable that the work should be carried on by private enterprise, supplemented by government aid. Accordingly the railway was placed in the hands of a company, and a contract made, by the terms of which the line was to be completed in 1891. In aid of the work, the Dominion was to give \$25,000,000 in money, and 25,000,000 acres of land, together with about 640 miles of completed road, which the government then had under contract, and of which the cost, including surveying, was about \$33,000,000.²

The liability thus incurred soon began to be felt. In 1883, out of a total capital expenditure of \$14,147,360, the large sum of \$10,033,800 went to the new Canadian Pacific Railway Company. In the following year, the amount due to the company was over \$11,000,000, and in order to meet its liability, the government found it necessary to float a loan of £5,000,000. In this prosaic transaction an unusual incident occurred, which is worthy of note. It seems that there was, in London, an organization of men connected with the Northern Pacific railway, which did all in its power to prevent the loan from being successful. The very morning when the tenders for the loan were being deposited, a most violent article appeared in one of the London papers against the government of Canada and the Canadian Pacific railway; and from ten o'clock in the morning until three in the afternoon, while the tenders were being deposited, a man stood at the door of Baring's Bank with a placard advertising the newspaper and calling the attention of everybody that passed to the article. In spite of this, the rate obtained was the highest ever reached up to that time for a Canadian loan, and the amount realized was about \$22,500,000, which, together with temporary loans of \$12,500,000, was disposed of in 1884 as follows:³

C. P. R. under Onderdonk's contract	\$3,379,873
On account of C. P. R. subsidy.....	8,386,418
C. P. R. loan account	19,459,000
Redemption of debt	3,991,056
Total	\$35,216,347

¹ Public Accounts, Canada, 1895, p. lxix.

² Report, Department of Railways and Canals, 1895, p. 495.

³ Budget speech, Sir S. L. Tilley, 1885, p. 39.

In the following year, 1885, the company came to the government for permission to issue bonds to the extent of \$35,000,000, asking the Dominion to take \$20,000,000 worth as security for the company's existing indebtedness, to put \$10,000,000 upon lands in the North-West territory, and to advance to them a further loan of \$5,000,000.¹ At this time, the position of the government loan account with the company was as follows:²

Payments by government during 1883-84	\$10,953,462
" " 1884-85	9,701,438
" " 1885-86	995,800
	<hr/>
	\$21,650,700
To pay 3% dividends on \$65,000,000 stock to August 17th, 1893.	7,380,012
	<hr/>
Total payments.	\$29,031,712

In response to the request, an agreement was entered into on March 30th, 1886, by which the company undertook to repay the government the amount stated to have been actually advanced to them out of the \$20,000,000 secured by first mortgage bonds, viz., \$19,150,700, and the government for its part, agreed to accept a portion of the company's lands for the balance of the company's indebtedness, (\$9,880,912, with interest), the value of the land being computed at \$1.50 per acre.³ It was the last part of the agreement which affected the public debt in 1886. The balance of indebtedness to be covered by the acceptance of lands was \$9,880,912, which with interest to May 1st, 1886, made a total of \$10,189,521.33. This large amount appears in the public accounts of the Dominion as a Consolidated Fund transfer for that year, and as an item which went towards increasing the debt.⁴ By the end of the year, the accounts between the company and the Dominion were practically closed.⁵ On July 1st, 1886, the company had repaid the government the balance due on Loan account of \$9,163-353, and on the 31st of December, in the same year the final payment on account of the \$25,000,000 subsidy was made by the government.⁶

¹ Budget speech, Hon. A. W. McLean, 1886, p. 22.

² Canada Sessional Papers, 1888, p. 22.

³ Statutes of Canada, 49 Vict., chap. 9.

⁴ Public Accounts, Canada, 1895, p. lxx.

⁵ By authority of order-in-council, Nov. 2nd, 1886.

⁶ Canada Sessional Papers, 1888, No. 8.

In this narrative of transactions with the Canadian Pacific railway we have gone one year beyond the period under discussion, in order to complete the financial history of the road. Limiting our inquiry, however, to the expenditure on the construction of this great work during the years embraced in the second period of Canada's debt, we find that it amounted to more than \$54,000,000. The sums spent year by year are as follows:¹

1876	\$3,346,567	1881	\$4,968,503
1877	1,691,149	1882	4,589,075
1878	2,228,373	1883	10,033,800
1879	2,240,285	1884	11,192,722
1880	4,044,522	1885	9,900,281

From 1885 up to the present, the expenditure has been comparatively small, averaging scarcely more than \$500,000 a year, and consequently this item has ceased to have an influence on the increase of the federal debt.

Canal expenditure.—Next in importance to the Canadian Pacific railway, as a factor in causing increase of debt during this decade was the extensive construction of canal systems. The years 1877, 1878, and 1879 witnessed an immense expenditure under this head, greater than for all the other years together since confederation. The most costly works were the Welland, Lachine, Carillon and Grenville canals, which were almost wholly built between 1875 and 1885. The first named, between Lakes Ontario and Erie, cost the large sum of \$13,500,000 during this time, the greatest expenditure being in 1877, when it amounted to \$2,199,962.² Next in point of cost was the Lachine canal, on which over \$6,000,000 was spent. During the same period the outlay on the Carillon and Grenville system came to more than \$3,750,000, and that on the Cornwall canal to about \$650,000, while large sums were also expended on the St. Peter's, Culbute and other canals.³ The total amount chargeable to capital spent on canal construction during the period was \$24,120,812, divided by years as follows:⁴

1876	\$2,388,733	1881	\$2,077,028
1877	4,131,374	1882	1,674,758
1878	3,843,338	1883	1,763,001
1879	3,064,098	1884	1,577,295
1880	2,123,366	1885	1,504,621

¹ Report, Department of Railways and Canals, 1895, App. I., p. 25.

² *Ibid.*, p. 7.

³ *Ibid.*, p. 7.

⁴ Public Accounts, Canada, 1895, p. lxxix.

Readjustment of provincial debts.—Among the causes of the increase of debt during this decade another very important item was the amount of provincial debt assumed by the federal government in the readjustments of 1884 and the following year. For some time previous to this date there had been appeals to the Dominion government, especially from the province of Quebec, for some relief from the burden of indebtedness. In 1873, it will be remembered,¹ the Dominion had assumed certain provincial debts. According to the terms of the Act under which this had been done, the Dominion proposed to allow Ontario and Quebec the benefit of the additional assumption of debt from 1873 only, and to charge them with interest on the difference between \$62,500,000 and \$73,006,088, from 1867 to 1873. The governments of these provinces, however, protested that interest should be allowed them from 1867, on a basis of the debt of the province of Canada having then been \$73,006,088, instead of \$62,500,000.² On this ground Quebec made common cause with Ontario and the other provinces in an appeal for increased subsidies. She had, however, special reason for her claim. The government of Quebec asked relief because her very heavy burden of debt had been incurred through sacrifices made to open up the country by the building of railroads, especial reference being made to the great provincial railway, the “Quebec, Montreal, Ottawa and Occidental.” An address,³ setting forth these claims, was sent to the House of Commons, and in response an Act was passed to readjust the yearly subsidies to all the provinces.⁴ It enacted that the amounts by which the yearly subsidy to each province was increased by the former Act of 1873⁵ should be calculated as if the Act had directed that such increase should be reckoned from July 1st, 1867; and that the total amounts of the half-yearly payments due on account of such increase from July 1st, 1867, to July 1st, 1884, should be deemed capital owing to the provinces, and payable to them as part of their yearly subsidies, on and after July 1st, 1884. The allowances to British Columbia, Manitoba, and Prince

¹ *Ante*, p. 15.

² Letter of Hon. J. Wurtle, Treasurer, Quebec, 2nd April, 1882. Quebec Sessional Papers, 1884, No. 83, p. 79.

³ Report of Committee of Executive Council, Feb. 11th, 1884. Quebec Sessional Papers, 1884, No. 83, p. 80.

⁴ 47 Vict., chap. 4.

⁵ 36 Vict., chap. 30.

Edward Island were to be increased by amounts bearing the same proportion to their respective populations as the amounts to be added under the Act as capital owing to Ontario, Quebec, Nova Scotia and New Brunswick, bear to the combined population of the four last-named provinces under the census of 1881. By virtue of this Act the additional debt allowances were as follows:—¹

Ontario and Quebec jointly	\$5,397,503
Nova Scotia	793,368
New Brunswick	604,519
Manitoba	110,825
British Columbia	83,107
Prince Edward Island	182,975
Total	<u>\$7,172,297</u>

In the following year a further readjustment was made as regards Manitoba, whereby the Dominion assumed an additional \$3,113,334 of debt on behalf of that province. This made the total assumption of provincial debt during the period exceed \$10,000,000.

Loans.—On a review of the eventful financial history of the Dominion during the years 1875-1885, it will be seen that the prediction made by the finance minister in 1874, that Canada must appear as a borrower many times in the immediate future, proved only too true. In the ten years following this prediction the Dominion floated no fewer than eight loans, which in the aggregate amounted to £20,000,000.² The principal reason for this is found in the fact that the government had undertaken to construct enormous public works, in all parts of Canada, during the precise years in which a large portion of her debt fell due. For example, in 1878 \$5,731,000, in 1879 \$7,624,000, and in 1880 \$6,060,000 of public debt matured,³ and in the same years large expenditure was entailed by the construction of the Canadian Pacific railway and the canal system.

In 1876, the Canadian government floated a loan of £2,500,000. It was offered at a fixed price of £91, and brought the highest price yet obtained on Canada's own unaided credit. It was our first loan at four per cent., and the price that it fetched was absolutely higher than the highest price obtained for our five per cents., payable in 1903. The former was equivalent to a five per cent. loan at 108,

¹ 47 Vict., chap. 4.

² Public Accounts, Canada, 1895, p. lxiv.

³ Speech of the Hon. R. J. Cartwright at Napanee, Sept. 6th, 1875.

whereas the current selling price of the actual five per cents. was 105-106½, after deduction of accrued interest. The expenses and discount on this loan amounted to \$2,212,796, which of course was an additional item in the debt of 1876.¹

By the end of 1876 the government of the Hon. Alexander MacKenzie had borrowed to the extent of £9,000,000, which had realized almost \$42,000,000. This large sum was disposed of as follows:²

On Intercolonial railway	\$4,173,000
New Brunswick and Nova Scotia railways	922,000
Prince Edward Island railway.....	1,018,000
C. P. R. survey	1,652,000
Lachine canal	1,457,000
Canadian Pacific railway construction.....	4,356,000
Welland canal	4,290,000
Other canals	1,238,000
Improvements on St. Lawrence River	564,000
	\$20,395,000
On hand	7,000,000
Redemption of debt	2,000,000
Advances to provinces	16,000,000
	\$44,395,000

Between November, 1878, and January, 1879, there matured some \$15 500,000 of Canada's indebtedness, and the new government, which came into power in 1878, negotiated the second loan of this period. It was for £3,000,000, in two parts of £1,500,000 each. At first little more than one-half was subscribed, and it was necessary to extend the time for receiving tenders, but eventually the whole was taken up at a fairly good price. The next loan was in 1879. In that year £400,000 worth of six per cent. debentures fell due in England, and others for £600,000 were payable on July 1st., 1880. There was also \$4,000,000 worth of securities outstanding, and the government had given notice that it would either pay these or substitute five per cent. securities for them. A loan of £3,000,000 at four per cent. was therefore placed in London, and a price of £95 ls. 10½d. realized, which was satisfactory considering the frequency of Canadian loans during the previous few years.³

1 Public Accounts, 1895, p. lxi.

2 Budget speech, Hon. R. J. Cartwright, 1877, p. 22.

3 Budget speech, Sir S. L. Tilley, 1880, p. 8.

Two more loans were floated in England during this period. The first, in 1884, was for £5,000,000, the second, in 1885, for £4,000,000, both being used to meet the liability of the government to the Canadian Pacific Railway Company.

Retrospect, 1885.—At the end of this second stage in its history the public debt of Canada stood at \$264,703,607, and her net debt at \$196,407,692. The increase in the former since confederation had been \$171,757,556, and in the latter \$120,779,051.¹ If this increase had been caused by war or disaster there would indeed have been reason for alarm, but no uneasiness was justified, for every dollar of additional debt was represented by useful and lasting public works. To realize this fact it is only necessary to glance at a list of these works, and of the sums spent upon them from the year of confederation to 1885. It is a formidable array of figures:²

Increased grants to provinces	\$27,529,959
Dominion lands	2,436,036
Eastern Extension railway	1,286,551
Intercolonial railway	30,460,381
Canals	31,798,956
Public buildings, Ottawa	1,532,622
Harbour at Port Arthur	2,947,723
North-West territories	2,920,000
Canadian Pacific railway	67,581,367
Prince Edward Island railway	207,620
Short Line railway	49,587
Subsidies to various railways	611,245
<hr/>	
Total	\$169,362,047

From this statement it will be seen that since 1867, in building railways, canals, custom-houses, post-offices, and other public buildings throughout the country, Canada had paid \$48,582,996 beyond the increase in her net debt. Or, to take the figures in another way, if we exclude from the increase in debt the allowances to provinces of \$27,529,959, there is a balance of debt of \$93,249,092. Now for the Canadian Pacific railway, the Intercolonial railway, and canals alone, to 30th June, 1885, the cost had been \$129,840,704,³ or over \$36,000,000 more than the whole increase in the net debt, exclusive of provincial debt allowances during the period.

¹ Public Accounts, Canada, 1895, p. xxx.

² *Ibid.*, p. lxix. Budget Speech, Sir C. Tupper, 1887, p. 18.

³ Public Accounts, Canada, 1895, p. lxix.

Financially, the most noteworthy year of the decade was 1881-82. The surplus from consolidated revenue in that year was \$6,316,000, to which was added a receipt of \$1,744,456 from sales of lands in the north-west, making a total surplus of over \$8,000,000. This last receipt was, in 1881, given a new place in the public accounts. Hitherto it had been reckoned by the various finance ministers as part of receipts from Consolidated Revenue account; but in that year it was concluded that, as the government, in opening up the North-west, had incurred large liabilities for surveys, police, Indian treaties, etc., whatever was got from sales of these lands should be placed to Revenue account, to meet the interest on the debt incurred by this expenditure, and for the sinking fund provided to pay off the indebtedness. So it happens that in 1882 we find receipts from this source going to swell the surplus for that year.¹ The expenditure chargeable to capital in 1882 came to \$7,405,637,² which, together with Consolidated Fund transfers, amounting to \$201,884, caused a gross increase in the debt of \$7,607,521. When there was placed against this, however, the surplus from Consolidated Revenue and the receipts from Dominion lands, a handsome surplus was left, and when the sinking fund was taken into account, the net debt of the Dominion was less by \$1,734,129 than in the year previous. This is the only year since 1871 which has seen a reduction in the net debt, and it must be noted that not only was nearly \$7,500,000 paid on capital account, but during the year liabilities maturing to the amount of \$4,000,000 were redeemed without the necessity of borrowing one dollar. Truly 1882 can be called the "annus mirabilis" in the history of the Dominion debt.

The successive surpluses which occurred between 1880 and 1885 were appropriated to redeem the debt, and Canada's position consequently improved in the money market. In the Dominion itself there were inquiries in every direction for the securities of the country, while in England our standing was each year becoming better. In 1879 Canadian securities were four or five per cent. behind those of New South Wales, which stood at the very top of the list of colonial funds, but by 1885 the securities of the Dominion surpassed those of all the other colonies, and stood four per cent. above those of New South Wales, the former favourite.

¹ Budget Speech, Sir L. Tilley, 1883, p. 4.

² *Ibid.*

Third period, 1885-1895.—During the past ten years the public debt had made rapid strides. In this third and last period, however, the remarkable feature is the great decline in the amount spent yearly on capital account, and the consequent comparatively slow rate of increase in Canada's indebtedness.

Our expenditure reached high-water mark in 1885-86, when the net increase in the debt was no less than \$26,751,414.¹ From that date it has been kept within very modest limits. In 1887, and again in 1888, it did not reach \$4,500,000, and the addition to the debt was correspondingly small. But the wish was now for *no increase at all*. In the budget speech of 1889, the finance minister asked the pertinent question, "Is our debt to go on increasing forever?" In answer he outlined the proposed expenditure for the next few years, and showed how, if the government were cautious, and no extraordinary events caused unforeseen expenditure, Canada should be able to meet her capital engagements for the three years ending June 30th, 1892, pay what was requisite of the running expenses of the country, and yet add not one dollar to the net debt.² When it is remembered that by this time the Dominion had practically ceased expenditure on the Canadian Pacific and Intercolonial railways, it does not appear difficult for the government to live up to the programme outlined in the budget speech of 1889. Difficult or not, however, it has been done. From that date to the present time the capital expenditure has been rigidly kept down to an average of less than \$4,000,000 yearly: indeed, in 1890, the desire of the government to meet all expenditure out of revenue account was practically realized, for in that year the net increase in the debt was but \$3,170, and this in spite of the fact that the Dominion assumed in that year a debt of \$2,725,504, being the amount spent to date by the Montreal harbour commissioners on the St. Lawrence improvements. The effect of this regulation of expenditure was to reduce the average annual increase in the net debt for this period to less than \$3,000,000, whereas for the preceding period it had been over \$7,000,000.

Canals.—The most important factor in the increase of debt during this decade was the expenditure on the completion of the canal system. The vast works at Sault Ste. Marie, and the Soulanges, Cornwall, Williamsburg, and Lachine canals were the most costly. The canal at Sault Ste. Marie and the Soulanges canal were

¹ Public accounts, Canada, 1895, p. lxxi.

² Budget Speech, Hon. G. E. Foster, 1889, p. 12.

both begun in this period, and the amounts spent upon them were \$3,258,025 and \$1,739,969 respectively.¹ Only once did the cost of canal construction fall below \$1,000,000 per annum (viz., in 1889, when it was \$972,918), and the total amount for the whole period spent under this head was nearly \$16,500,000.

Railway subsidies.—The only other item which helped materially to increase the debt during the period was the expenditure on railway subsidies. Up to 1882, the government had given aid only to those lines which connected provinces. In 1883, however, when it was seen that provincial governments could no longer aid railways, without going deeply into debt, the finance minister² introduced a bill in the House of Commons, providing for the granting of subsidies to eleven railways. This policy came fairly into force by 1885, and since that date a total of nearly \$14,000,000 has been expended in this direction. The division by years is as follows:³

1886.....	\$2,701,249	1891.....	\$1,265,705
1887.....	1,406,533	1892.....	1,248,215
1888.....	1,027,041	1893.....	811,394
1889.....	846,721	1894.....	1,229,885
1890.....	1,678,195	1895.....	1,310,549

1890-1895.—Since 1890, the annual expenditure on the Intercolonial railway has averaged only \$450,000, while that on public buildings at Ottawa, on the North-West territory, on the Prince Edward Island railway, and on the Canadian Pacific railway has wholly disappeared from the capital account of the Dominion. The increase in the net debt in these six years has been \$15,544,885, an average for each year of \$2,590,814. But in the same time there has been spent on capital account for canals and the Intercolonial railway \$16,236,160,⁴ which more than offsets the increase in debt. The real standard, however, by which to judge the increase, is the amount of interest required each year to carry it. In 1890, the net interest was \$1.79 per head of population, and in 1895 it was \$1.80, an increase of only one cent in its incidence *per capita*.

Loans.—During the ten years 1885-1895, four Canadian loans were floated in London, the total of which came to over £15,900,000. Yet so satisfactory was the management of our debt and the state of our finances, that the position and credit of the Dominion were

¹ Report, Department of Railways and Canals, 1895, App. I., p. 12.

² Sir Charles Tupper.

³ Public accounts, Canada, 1895, p. lxx.

⁴ Budget speech, Hon. G. E. Foster, 1896, p. 9.

higher than those of any other British colony. The truth of this is evident from the way in which the latest Canadian loans have been taken up. In October, 1894, in the very midst of the depression that had been covering the world for some years, it became necessary for Canada to negotiate a loan on the London market. Colonial securities were then at their lowest. Canada's trade was decreasing, and the Dominion revenue diminishing, but the loan of £2,500,000 at three per cent. was placed on the market with a named minimum of 95. No less than 566 different tenders were sent in offering nearly £12,000,000 in all. The highest went at £99 12s. 6d., or *à l'ost par*, while the average was £97 9s. 2d. When the discount and cost were reckoned in, the rate of interest was three and a half per cent. making this the best loan ever negotiated by Canada.¹

Summary, 1895.—The foregoing pages have shown the way in which the federal debt was accumulated during the three stages of its history. Fairly rapid increase is characteristic of the first period: very rapid increase marks the second: while in the third period, growth is slow. The causes of increase in all three periods may be summed up in the phrase "Railways and canals," and therefore, in estimating this rapidity of growth, we must consider whether or not the benefits, accruing to the country from the deepening and finishing of the canals, and from the building up of a great railway system, are a sufficient offset. If they are, the additions to the debt are justified.

To bring out the results of this account of the growth of the federal debt, extending over twenty-eight years, a concise summary is necessary. On the 30th of June, 1895, the net debt of Canada was \$253,074,927, or \$178,346,286 more than it was in 1867. It was not, of course, wholly incurred by the Dominion for Dominion purposes. There was assumed for the four provinces at confederation \$77,500,000 of debt²; and there has since been a further assumption of \$31,930,148, increasing the total to \$109,430,148. Deducting this sum from the net debt in 1895, we have a net debt, incurred by the Dominion for Dominion purposes since 1867, amounting to \$143,644,779, or an average yearly increase of a little over \$5,000,000. As has been frequently stated above, this increase has been caused almost wholly by the construction of railways, canals, and other public works of importance, calculated to aid in the development of the country: and it is for this reason, that the debt of

¹ Budget speech, Hon. George Foster, 1895, p. 10.

² British North America Act, 1867, sect. 112 118.

Canada cannot fairly be compared with those of European countries, which have been contracted mainly for war purposes. The history of the public works of Canada is the history of her public debt. On the Intercolonial railway system, eleven hundred and thirty-six miles in length, the capital expenditure has been \$45,294,029.¹ On the canal system,² the great waterway and artery of central Canada, the federal government has spent \$44,161,311; and on the Canadian Pacific railway, whose utility has been amply proved, the expenditure on capital account reaches the figure of \$62,653,745³. These sums make a total of \$152,109,085. That is to say, on these three works alone, the commercial highways of the country, the Dominion has spent \$8,464,306 more than the whole debt created since confederation, apart from provincial allowances. In addition, Dominion lands have been opened up at a cost of \$3,668,903. Public buildings at Ottawa and public works elsewhere have been undertaken, on which the capital expenditure reaches a total of \$9,187,299. The North-West territories have been purchased and opened up at a cost of \$3,798,656, and other similar services have been performed. These undertakings represent, in connection with railways and canals, a grand total expenditure chargeable to capital of \$200,143,170⁴. In other words, the sum of \$22,797,085 has been expended out of revenue during the same period on capital account for the services of the country, in addition to what has been added to the debt since confederation.

If the actual interest paid on the debt be taken, it is found that whereas in 1868 we paid at the rate of 4.51%, in 1895 we paid but 2.93%⁵. The net interest paid per head of Canada's population in 1878 was \$1.29; in 1873 it was \$1.31; in 1878 it was \$1.58; in 1889, \$1.86; and in 1895, \$1.80 or 6 cents less than in 1889.⁶ The reduction in the rate of interest has made the burden of the debt smaller in proportion to its size, so that at the present time Canada, with her improved credit, can carry almost twice the amount of debt she could in 1867, and still have a no larger burden *per capita*. The actual net interest paid in

1868 was.....	\$4,375,148
1873 ".....	4,812,802
1878 ".....	6,443,109
1889 ".....	8,843,539
1895 ".....	9,130,247 ⁷

¹ Public Accounts, Canada, 1895, p. lxix.

² Report, Department of Railways and Canals, 1895, p. 13.

³ *Ibid.*, p. 25. ⁴ Public Accounts, Canada, 1895, p. 69.

⁵ Statistical Year Book of Canada, 1895, p. 797.

⁶ *Ibid.* ⁷ Public Accounts, Canada, 1895 p. xxx.

If, as a standard to measure the debt, a comparison be instituted between revenue and net debt, it is found that in 1868, 5.53 years of the revenue of that year would have been sufficient to pay off the federal debt. In 1878 it would have taken 6.27 years, in 1888 6.53 years, and in 1895 7.45 years of the revenue of those respective years to wipe out our net indebtedness.¹ From the application of this standard two facts appear; first, that the debt has increased a little more rapidly than the revenue, and second, that the debt of Canada is not, in proportion to the revenue of the country, so great as the debts of many other countries considered to be prosperous. While it would have taken $6\frac{2}{3}$ years of the revenue of 1894 to pay off the net debt of Canada, $7\frac{1}{2}$ years of the revenue of Great Britain in that year would have been needed to pay off its debt; $7\frac{1}{2}$ years of the revenue of 1892 would have been required to pay off the debt of Austria-Hungary in that year; $6\frac{2}{3}$ years that of Belgium; $9\frac{1}{2}$ years that of France; and $8\frac{2}{3}$ years that of the Netherlands.²

These tests however, interesting as they may be, prove but little. The average Canadian will only have to consider three significant facts: one, that Canada now pays over \$9,000,000 yearly to carry her debt, next, that her revenue does not amount to \$34,000,000, and last, that for the past two years there have been large deficits, and he will be convinced that the time has come for calling a halt in the large expenditure on capital account.

The phase of development through which the country is now passing, the heavy contributions which she has made in the past for the construction of public works, and the equipment which, by means of these contributions, she has provided for herself, suggest that the government during the next few years, should adopt a policy of careful retrenchment. A vigorous attempt to make the revenue cover current expenses, and to bring capital expenditure down to an amount not greater than the yearly sinking fund, would meet with the approval of the country; and, after a few years of such policy, the government might well take into consideration, whether it could not gradually decrease the amount of the debt itself.

¹ Statistical Year Book, 1895, p. 789.

² Ibid, p. 789.

PART II.

PROVINCIAL DEBT.

PART II.

PROVINCIAL DEBT.

Province of Canada.

FROM 1841 to 1846 the two provinces of Upper Canada and Lower Canada, or, as they are now known, Ontario and Quebec, were united under the name of the province of Canada. It was during the twenty-six years of their union, that by far the largest part of the \$73,000,000 constituting the debt of the province in 1867 was contracted. From a statement,¹ made by the finance minister, in the legislature of the united provinces in 1841, we learn that the debt was then £1,670,142, nearly all of which was brought into the union by Upper Canada. In fact, the liabilities of Lower Canada when she entered the union amounted to but £133,000.² This debt of £1,670,142 in 1841 had been incurred, like most Canadian debt since that date, mainly for the construction of public works, and in opening up the country. The total expenditure on these services up to February 10th, 1841, came to \$9,846,183 which included the following sums:—³

Canals, harbours, piers, etc	\$5,418,843
Roads, turnpike and colonization	2,103,320
Public buildings	2,145,403

Rapid increase.—In ten years the debt of the united provinces increased fourfold, and amounted to \$12.13 per head of the population. In twenty years it reached the considerable figure of \$58,-

¹ Sir F. Hincks, Dec. 15th, 1841 (contained in second report of the Committee on Municipal Institutions, Ontario, 1889, p. 44.)

² Hon. Mr. Dorion, Confederation Debates, p. 266.

³ Return to an address of legislative assembly, dated July 27th, 1847, (included in report of Department of Public Works, 1867, Appendix No. 70.)

326,478, a *per capita* debt of \$23.21. The following is a statement of this increase year by year for the decade 1852-1861.

Year.	Debt. ¹
1852.....	\$22,355,413
1853.....	29,922,752
1854.....	38,851,833
1855.....	45,855,217
1856.....	48,757,619
1857.....	52,334,911
1858.....	54,892,405
1859.....	54,142,044
1860.....	58,292,469
1861.....	58,326,478

Capital expenditure to 1867.—On the 30th of June, 1867, the debt of the province of Canada, as subsequently allowed, amounted to \$73,066,088.² This vast increase in the quarter of a century of union is explained by the fact that the expenditure on public works alone came to no less than \$50,364,416.³ This sum, together with that expended before 1841, made a grand total of over \$60,000,000, spent by the two provinces in the construction of public works previous to confederation.⁴ Of the sum spent by the government of the united provinces from 1841 to 1867, \$12,739,783 went for the construction of the canals comprised in the St. Lawrence navigation system, \$1,702,724 was expended on harbours and piers, \$1,115,415 on lighthouses, beacons and buoys; and these amounts, when combined with expenditure on other canals, formed a grand total of \$17,106,371 for works connected with navigation. On roads was spent \$3,834,508, and on public buildings, chargeable to capital, \$7,031,157. The largest expenditure under any one head, however, was that on railways, which amounted to \$20,264,800.⁵

Confederation.—At confederation, under the provisions of the British North America Act, all stocks, cash, bankers' balances, and securities, belonging to each of the existing provinces, became the property of the Dominion of Canada, and the Dominion became responsible for the debts and liabilities of each province; but Ontario and Quebec jointly were made liable to the Dominion for the amount, by which the debt of the late province of Canada

¹ Budget speech, Province of Canada, Hon. A. T. Galt, May 16th, 1862, App. 2.

² 36 Vict., Chap 30.

³ Report, Department of Public Works, 1867, p. 560.

⁴ *Ibid*, p. 560.

⁵ *Ibid*, appendix no. 70.

exceeded \$62,500,000, and were to be charged interest at the rate of five per cent. thereon. Certain assets, enumerated in the fourth schedule of the Act, were declared the property of Ontario and Quebec jointly. The division of the debts, credits, liabilities, properties, and assets of Upper and Lower Canada, was to be referred to three arbitrators, one chosen by Ontario, one by Quebec, and one by the Dominion.¹

Arbitration.—Statements of the liabilities and assets of the late province of Canada, as framed in a conference of members of the three governments held at Montreal in July, 1869, and approved by an order-in-council of the privy council of Canada of the 17th of August, 1869, were submitted to the three arbitrators, who were the Hon. D. L. Macpherson for Ontario, the Hon. C. D. Day for Quebec, and the Hon. J. H. Gray, M.P., appointed by the Dominion government. The arbitrators met first in August, 1869, and, after numerous sessions and hearings of counsel, an interlocutory judgment was rendered by the arbitrators appointed by the Dominion and Ontario, on the 28th of May, 1870, establishing the principles on which the surplus debt and the joint assets should be divided. The arbitrator appointed by Quebec dissented from the judgment, and on the 9th of July, 1870, resigned his position, for the reason that he considered the judgment erroneous and unjust. The remaining two arbitrators made their final award on September 3rd, 1870, notwithstanding a protest against their continued action by the government of Quebec. In this award, the principle of the division of the excess debt was that of local origin. That is to say, the division was based on the locality of the assets mentioned in the schedule to the British North America Act, in the creation of which the several items of the debt had been incurred, and the debt was apportioned between Quebec and Ontario, according as it was adjudged to have originated for the local benefit of either. Where the debt had been incurred by the creation of an asset for their common benefit, it was divided equally between them. On this basis, the arbitrators found in their award that of the debt of the province of Canada exceeding \$62,000,000, Ontario should assume and pay such a proportion as \$9,808,728.02 bears to \$18,587,520.57, and Quebec such a proportion as \$8,778,792.55 bears to the same. This was approximately 9/17 for Ontario, and 8/17 for Quebec. The amount of the excess was not stated, as that question had not been referred to the arbitrators,

¹ British North America Act, sect. 142.

but if it was taken at \$10,500,000, Ontario, according to this award, would bear \$5,540,902 and Quebec \$4,959,098.

The Quebec government protested against the award, and nothing was done towards a settlement for some years. The Dominion government went on making payments and collecting moneys in connection with the affairs of the late province, and charged or credited these items to the account of the same, without the concurrence of the provincial governments. At the beginning of the year 1873, the excess of debt of the late province of Canada, for which Ontario and Quebec were jointly liable, amounted, according to the account of the Dominion, to \$10,506,808.84. In that year an Act¹ was passed by the Dominion parliament, whereby the \$62,500,000 of the debt of the late province of Canada, which under the British North America Act had been assumed by the Dominion, was increased to \$73,006,088.84, and the amounts of the debts of the other provinces, assumed by the Dominion, were correspondingly increased.² This assumption of excess debt settled the dispute between Ontario and Quebec, on the question of division of the debt of the old province, but since that date arbitration has continued up to the present year, with a view to adjusting the accounts of the two provinces in regard to other items. Five judgments have been rendered and awards made by the arbitrators, but the only one which has to do with the debt is the "interest award."

It will be remembered that the province in 1882 contended that the proper effect had not been given to the operation of the Act of 1873, under which it was claimed that the \$10,506,088.84 of additional debt assumed by the Dominion should have been credited at confederation, instead of at the date of the Act, 1873; and that the amounts charged for interest on the excess of debt, and retained from the subsidies between 1867 and 1873, should be reduced accordingly.³ A second Act to readjust the provincial subsidies was passed in 1884.⁴ By its terms the total amount of the half-yearly payments, which would have been made on account of the subsidy to Ontario and Quebec jointly, if the sum above mentioned (\$10,506,088.84) had been assumed as at July 1st, 1867, together with interest upon them, was capitalized at the sum of \$5,397,503.13, and the yearly subsidy to Ontario and Quebec jointly was increased by a sum equal to five per cent. on the latter amount.⁵

¹ 36 Vict., chap. 30.

36 Vict., chap. 30.

² *Ante*, Part I, p. 15.

⁴ 47 Vict., chap. 4.

⁵ *Ante*, Part I, p. 23.

The provinces now advanced the claim that interest should be credited to them on the deductions from their subsidies between 1867 and 1873, for the periods when the payments on account of subsidies were less than the amounts subsequently admitted to have been due. This claim had not been allowed by the Act of 1884, and the question was, amongst others, submitted to arbitration in 1893, and the first award made on November 2nd of that year. The following were its terms:¹

1. That from the 1st of July, 1867, to 1873, the provinces of Ontario and Quebec shall be credited with subsidy half-yearly in advance; that the deductions for interest on the excess of debt of the province of Canada over 62,500,000, as actually ascertained in amount at each period, shall be made at the end of each half-year down to and including January 1st, 1873; that the first of such deductions shall be made on January 1st, 1868.

2. That in the province of Canada account there shall be credited, on May 23rd, 1873, the \$10,506,088.84 remitted by 36 Vict. chap. 30, and that there shall be no deduction from subsidy thereafter.

3. That on and after July 1st, 1884, the provinces shall be credited with the additional subsidy granted by 47 Vict. chap. 4.

The Dominion appealed to the Supreme Court against this first award, and on May 7th, 1894, judgment was given dismissing the appeal with costs.² Since that date awards have been made on the questions of Indian claims, immigration expenditure and the common school fund, but the debt account of the old province of Canada has been, to all intents and purposes, closed, and the interest questions which it involved have been finally settled by this judgment.

Province of Quebec.

In 1873 Ontario and Quebec were both left practically free from debt, but the financial paths which they have pursued since that date have been widely different. Ontario stands to day with a surplus of from \$4,000,000 to \$5,000,000 of assets over liabilities,³ whereas the debt of Quebec amounts to upwards of \$32,000,000.⁴ The explanation of the growth of this debt is found in the lavish aid given by the government of Quebec to railway construction.

¹ Ontario, Budget speech of the Hon. R. Harcourt, 19th February, 1896, p. 30.

² Budget speech Hon. R. Harcourt, 1895, p. 31.

³ Budget speech, Hon. R. Harcourt, 19th February, 1896, p. 40.

⁴ Public Accounts, Quebec, 1895, p. 14.

If the disposition of the several loans which constitute the funded debt of that province is inquired into, it is found that with scarcely an exception the money raised by the sale of provincial debentures has been spent in railway subsidies, or in direct aid in the construction of railway lines as public works.

First loans.—In 1872 Quebec made her first loan. It was only \$20,000, and was expended in enabling distressed farmers in certain parts of the province to buy seed grain.¹ The following year saw the genesis of her railway policy. By an Act passed in 1873,² authority was given for raising a loan of £800,000 for railway subsidies, and twelve railways were specified to which aid was to be given. By the same Act was formed a "Consolidated Railway Fund" of all debentures issued, or to be issued, for subsidies to railways, and of unexpended balances on hand from the sale of them. From this fund all subsidies were to be paid to railways authorized to receive them. In 1875 the province decided³ to construct as a public work a line of railway from Quebec to Montreal, and thence ultimately to Ottawa. As large sums would be necessary to build the line, and as more money was already needed to pay railway subsidies, an Act⁴ was passed authorizing the sale of provincial debentures to the extent of £860,000. This was done, and the amount realized was \$4,257,196.82, the rate paid being five per cent.⁵

Financial position.—At this time (1876) the province was on a sound basis financially. Since 1867 the revenue had exceeded the expenditure, and had enabled the province to save about \$2,000,000, of which some \$850,000 had been spent in the construction of public works, and the balance was in the treasury. One half of the revenue of the province was derived from the Dominion government, and most of the other half from Crown lands, which the province held to the extent of 100,000,000 acres, largely under license to lumbermen.⁶

Railway expenditure and deficits.—In 1875 the debt of Quebec was not \$4,000,000, but by the end of the fiscal year 1881-82 it amounted to nearly \$15,500,000. That this rapid increase was

¹ 36 Vict. chap. 2, Quebec.

² 37 Vict. chap. 2, Quebec.

³ 39 Vict. chap. 2, Quebec.

⁴ *Ibid.*, chap. 4.

⁵ Quebec Sessional Papers, 1876, No. 19.

⁶ Statement of Hon. L. R. Church, Treasurer. Quebec Sessional Papers, 1876, p. 51.

owing wholly to expenditure on railways and deficits in Consolidated Revenue fund can be seen at a glance from the following statement :¹

Year.	Gross debt.	Total payments to railways.	Deficits in C. R. F.
	\$	\$	\$
1873-4.....		186,051	.....
1874-5.....	3,893,333	1,010,099	67,909
1875-6.....		1,517,800	14,498
1876-7.....		3,841,670	81,035
1877-8.....	7,920,013	2,610,594	685,514
1878-9.....	10,839,226	2,303,749	123,123
1879-80.....		501,490	483,117
1880-1.....	15,013,853	2,422,794	442,139
1881-2.....	15,549,613	911,021	208,852
Total.....		14,945,271	2,106,187

Thus, in the eight years ending 1882, Quebec had spent in aid of railways an amount which was almost equal to the whole gross debt at the latter date. During that time, she had floated four large loans. Two of these have already been noticed.² The other two were contracted in 1878 and 1880 respectively. The first of these latter was for £600,000, and the Act authorizing it³ specified that the proceeds were to be spent on the great provincial railway, the Quebec, Montreal, Ottawa and Occidental railway. The Act of 1880⁴ authorizes the raising of a loan of £800,000 by sale of provincial debentures, "for the payment of subsidies to railway companies, for completing the Q., M., O. and O. railway, and for reimbursing the consolidated fund of the province for moneys heretofore advanced therefrom for railway purposes."

Financial position, 1882.—On the 4th of March, 1882, the funded debt of the province amounted to \$14,971,513, temporary loans to \$839,202, and amounts owing on account of construction of the Q., M., O. and O. railway to \$1,442,617. These sums, together with railway subsidies granted, but not yet earned, made the

¹ Quebec Sessional Papers—

1881-82, No. 25, Statement No. 2.

1881-82, No 11.

1887, No. 3, Statement No. 7.

² *Ante*, p. 40.

³ Quebec, 41 Vict., chap. 1.

⁴ Quebec, 43-44 Vict., chap. 45.

liabilities of the province \$18,773,821.¹ From the date of confederation to the 30th of June, 1882, the expenditure of the province had been \$33,968,413, and the total receipts of Consolidated Fund \$33,594,297, which showed an excess of expenditure over receipts of \$374,115. It must be explained, however, that in the same period Quebec had paid out of ordinary receipts large sums for services, which, strictly speaking, were chargeable to capital, namely,²

Colonization.....	\$1,408,782
Immigration.....	387,806
Cadastrés.....	619,229
Construction of public buildings.....	823,071
Court-houses and gaols.....	440,174
	\$3,679,073

—making a total for these services that exceeded the deficit by \$3,304,947. At the end of 1882, notwithstanding the numerous loans which had been made to replenish it, the Consolidated Revenue fund showed a total deficit of over \$3,000,000, and when to this was added the cost of the new Parliament buildings, the sum of \$3,681,549 appeared as the amount for which the government was liable, in addition to the first four loans of the consolidated debt.³ This condition of things was far from reassuring and, it was for the purpose of meeting these railway liabilities that two loans, aggregating \$5,500,000, were placed on the London market in this year.

The provincial railway.—Up to 1882 the cost of the Quebec, Montreal, Ottawa and Occidental railway had been over \$12,500,000, and it was estimated that its total cost at completion would reach \$14,000,000.⁴ The road had proved a burden too heavy for the province, and therefore, when the Canadian Pacific railway, in 1882, offered to buy the western section, and the North Shore railway the eastern one, on a total contract of \$7,600,000, the government closed the bargain. By an Act of the legislature passed the same year, the proceeds of the sale were appropriated to the payment of the consolidated debt of the province, or, to be more specific, to the redemption of the loans of 1874, 1876 and 1878.⁵

¹ Quebec Sessional Papers, 1881-82, No. 25, Statement No. 8.

² Budget speech, 16th Feb., 1883.

³ Ibid.

⁴ Quebec Sessional Papers, 1881-82, No. 25, Statement No. 9.

⁵ Quebec, 45 Vict., chap. 21.

Deficits.—During the next few years the debt continued to increase rapidly, owing to very large deficits and to the capital expenditure on the new Parliament buildings, and on the new court-houses at Quebec and Montreal. The expenditure on railways continued to be as great as ever. In the five years from 30th of June, 1882, to the end of the fiscal year 1887-88, the amount spent on the construction of the Parliament buildings was \$745,133, that on the new court-house at Quebec \$637,007, and that in aid to railways \$2,066,020, a total of \$3,448,160 for these three objects alone.¹ This large expenditure, combined with the deficits during the same period, caused a floating debt to accumulate, which, at the end of 1887 amounted to \$4,037,624. At the same time there were claims against the government for considerable amounts, which, though contested, had necessarily to be taken into account, so that it was decided to go into the market and place a loan of \$3,500,000. In 1888, therefore, Quebec floated her sixth loan, and the proceeds were applied in liquidation of the floating debt of the province.²

Loans.—This, however, was to prove but a temporary relief. In the session of 1887 an Act³ was passed by which railways were to be allowed to change their land subsidies into cash at the rate of 70 cents per acre, an operation which had the effect of greatly increasing the expenditure under that head. In 1888, nearly \$3,000,000 was voted for railway subsidies, and in the same year a new debt of \$462,911 was created for the purpose of finally settling claims upon the question of Jesuits' estates. The expenditure on the Parliament buildings was still large, and it had become necessary to erect new gaols, court-houses, and normal schools in Montreal and in the counties of Ottawa and Pontiac and other parts of the province. Further, during the session of 1890 new railway subsidies, amounting to several millions, were voted as being "necessary to crown the railroad policy sanctioned by preceding legislatures."⁴ The result of all this was that at the end of 1890 the floating debt of the province reached a total of no less than \$10,862,353, made up of the following amounts:⁵

1 Outstanding warrants, 30th June, 1890.....	\$ 112,571
2 Temporary deposits.....	261,361
3 Railway companies' guarantee deposits.....	1,916,685
4 Railway subsidies under 49-50 Vict. c. 76....	2,898,247
5 Balance of debts of Q. M. O. & O. railway ..	122,364

¹ Quebec Sessional Papers, 1894, Statement 2, p. 1.

² Quebec, 50 Vict. chap. 2.

³ Quebec, 49-50, Vict., chap. 76.

⁴ Quebec, 54 Vict., chap. 2.

⁵ Ibid.

6	Loss on Exchange Bank to be replaced	\$27,000
	in sinking fund (45 Vict., c. 21)	
7	Amount due Protestant Committee of Instruc- tion	62,961
	under Jesuits' estates settlement	
8	Estimated special expenditure 1890-91.	912,183
	Total	<u>\$6,313,374</u>
	Less cash on hand	525,344
	Additional amounts	<u>\$5,788,030</u>
9	Supplementary estimates special expdr 1890-91	115,448
10	Estimated special expenditure 1891-92.	558,555
11	Railway subsidies per resolutions (23 Dec. 1890)	2,544,270
12	Railway land subsidies converted into cash per same resolutions.	4,400,320
	Grand total	<u><u>\$10,862,353</u></u>

The government obtained the necessary authority to borrow \$10,000,000 in order to meet this large floating debt, as well as to pay off railway subsidies and the additional debt likely to result from projected works. In 1891 it negotiated a loan of 20,000,000 francs on the Paris money market; but the circumstances were not favourable, and the government had to confine itself to temporary arrangements, making the loan for two years only. Thus the situation in 1891 was not promising. In that year the consolidated debt of the province was \$25,842,148, while the floating debt amounted in the aggregate to over \$8,000,000.¹ To offset this liability of \$8,000,000, there was only an Act authorizing a loan of \$10,000,000, by virtue of which \$4,000,000 had already been borrowed. There remained \$6,000,000 to be borrowed, to liquidate both the floating debt and the annual deficit of \$1,700,000.

In 1893 the government had to meet the loan contracted two years before. Again it was found necessary to adopt temporary arrangements with the capitalists of Paris, for another period of two years. In the spring of 1894 the province negotiated a loan² of £600,000 under authority of the Act of 1891, but 94 was the best price that could be obtained for four per cent. debentures. The credit of the province was low indeed. In the same year, an Act was passed³ for the conversion and redemption of the debt. It regulated the application of the money received from the Canadian Pacific rail-

¹ Budget speech, Quebec, Hon. L. O. Taillon, 1895, p. 22.

² *Ibid.*, p. 31.

³ Quebec, 57 Vict., chap. 2.

way, on account of the purchase of the Quebec, Montreal, Ottawa and Occidental railway, to the redemption of the loans of 1874, 1876, and 1878, and further enacted that the lieutenant-governor, in connection with any conversion of debt, might in council authorize the issue of inscribed stock, bearing not more than four per cent. interest, and to be known as "Province of Quebec Incribed Stock," which was to be in lieu of bonds, debentures, or annuities. In December, 1894, the government, in order to pay off its temporary loan of two years before, was obliged to go again to the Paris money market. This time a sixty years' loan, amounting to 27,632,000 francs, was floated at three per cent.¹

The cause of these various loans, which so rapidly built up the funded debt, is found in the fact that the floating liabilities mentioned above² had to be met, and at the same time an annually recurring deficit precluded any assistance from Consolidated Fund. The deficits since 1889-90 have been as follows:³

Year.	Deficit.
1889-90.....	\$1,880,569
1890-91.....	1,444,236
1891-92.....	1,742,651
1892-93.....	24,828
1893-94.....	230,202
1894-95.....	162,661

Present position.—The balance sheet of the province⁴ in 1895 shows a funded debt on June 30th of that year amounting to \$29,345,402, and temporary loans of \$1,460,000, which, together with other items—principally railway subsidies outstanding, but not yet earned,—make her total liabilities \$33,545,194. Against this are assets of \$10,019,644, leaving an excess of liabilities over assets amounting to \$22,525,550. During the year the expenditure on the public debt was \$1,486,660.⁵

The condition of Quebec's finances has caused the present government of that province to declare for a policy of rigid economy. Speaking in the legislature on the 26th of November, 1895, the treasurer⁶ outlined it in these words: "We must not undertake extraordinary public works, whose cost cannot be met out of the ordinary revenue, without urgent necessity. We

¹ Public Accounts, Quebec, 1895, p. 14.

² *Ante*, p. 43.

³ Budget speech, Hon. L. O. Taillon, 1895, p. 31, Statement A.

⁴ *Ibid*, p. 18.

⁵ *Ibid*, p. 10.

⁶ *Ibid*, p. 30.

must not grant new subsidies for railway enterprises. We must not revive subsidies which are defunct, and we must refuse, as far as public interest will permit, to transfer subsidies already voted from one enterprise to another. The policy which the government finds itself compelled to follow does not only mean that we must not increase the public debt, and must reduce it each time the occasion presents itself, but it also means that it will be necessary to practise the most rigid economy." It is to be hoped that, by adhering to this policy, the government of Quebec will be able to restore some measure of equilibrium to her finances, and at the same time reduce her large indebtedness.

TABLE No. I.
PROVINCE OF QUEBEC—DEBT AND ASSETS.
1882—1895.

Year ended 30th June.	Gross Debt.	Total Assets.
	\$	\$
1882.....	15,549,613	8,725,943
1883.....	16,920,460	8,724,263
1884.....	18,895,575	13,885,637
1885.....	18,871,593	13,833,404
1886.....	19,068,023	13,834,672
1887.....	19,456,379	13,845,916
1888.....	21,799,360	13,836,916
1889.....	23,945,663	13,863,284
1890.....	23,626,714	13,870,382
1891.....	25,842,148	13,915,314
1892.....	28,731,263	13,903,933
1893.....	28,574,213	13,902,024
1894.....	30,215,272	13,919,614
1895.....	33,545,194	13,850,017

Statistical Year Book of Canada, 1895, p. 804.
Budget speech, Quebec, 1895, p. 10.

TABLE No. II.

STATEMENT OF COST OF QUEBEC'S DEBT.

1875-1895.

Yearendg 30th June.	Interest on Debt.	Charges of Management.	Sinking Fund.
	\$	\$	\$
1875.....	123,912	4,171	26,583
1876.....	212,886	2,436	39,138
1877.....	403,766	3,409	.....
1878.....	399,237	3,375	80,048
1879.....	560,654	5,759	160,682
1880.....	568,759	6,289	1,706
1881.....	758,756	17,835	121,160
1882.....	775,531	9,120	43,774
1883.....	836,958	7,229	45,606
1884.....	909,660	6,972	47,559
1885.....	923,042	7,350	49,716
1886 ..	917,716	8,049	51,994
1887.....	955,543	6,119	54,359
1888.....	1,031,516	15,349	56,845
1889.....	1,063,509	11,850	59,429
1890.....	1,171,020	26,252	62,133
1891.....	1,189,230	17,306	64,970
1892.....	1,334,886	35,436	68,121
1893.....	1,353,475	20,502	71,053
1894.....	1,336,323	27,636	73,973
1895.....	1,390,546	18,247	77,866

Abstract, Quebec Sessional Papers, 1894, No. 10.

TABLE No. III.

STATEMENT OF TEMPORARY LOANS RECEIVED AND REPAID.
1878-1895.

Year ending 30th June.	Loans Received.	Loans Reimbursed.
	\$	\$
1878.....	800,000	.....
1879.....	1,918,125	1,950,000
1880.....	1,050,000	500,000
1881.....	500,000	1,070,000
1882.....	1,203,849	871,813
1883.....	.....	112,429
1884.....	400,000	818,129
1885.....	450,000	424,101
1886.....	750,000	580,383
1887.....	600,000	250,000
1888.....	400,000	1,500,000
1889.....	.....	.....
1890.....	.....	.....
1891.....	2,223,333	.....
1892.....	1,400,000	2,073,333
1893.....	1,150,000	1,000,000
1894.....	870,000	2,070,000
1895.....	2,460,000	1,500,000
Totals.....	16,178,307	14,720,182
	Balance.....	\$1,458,225

*Abstract, Quebec Sessional Papers, 1894, No. 10.
Quebec Public Accounts, 1895, p. 22.*

TABLE No. IV.

STATEMENT OF THE PUBLIC DEBT OF QUEBEC AT 30TH JUNE, 1895.

FUNDED DEBT.

Date of Issue.	Rate. per cent.	Amount of Loan. Stg. or Francs.	Currency.	Amount outstanding.
1874.....	5	£800,000	\$3,893,333	\$3,625,666
1876.....	5	£860,000	4,185,333	4,059,773
1878.....	5	£600,000	3,000,000	3,000,000
1880.....	4½	£878,000	4,275,853	3,407,153
1882.....	5	£500,000	2,433,333	2,433,333
1882.....	5	.....	1,066,500	1,066,500
1888.....	4	£722,000	3,500,000	3,500,000
1894.....	4	£600,000	2,920,000	2,920,000
1894.....	3	Frs.27,632,000	5,332,976	5,332,976
			\$30,607,329	\$29,345,402

TEMPORARY LOAN AND DEPOSITS.

At the same date these consisted of eighteen sums of various amounts, making a total of \$2,712,151.30.

Abstract from Public Accounts, Quebec, 1895, p. 14.

Province of New Brunswick.

In 1866 the debt of New Brunswick was but \$5,702,991,¹ yet at the time of the union, 1867, she was allowed to throw a debt of \$7,000,000 upon the federal government. She was, however, under liability for certain works, which, if proceeded with, would have brought her debt up to the mark of \$25.00 per head. Since that date New Brunswick has in the readjustments of 1873 and 1884 been allowed \$1,807,720 of additional debt.² On October 31st 1895, the general statement of New Brunswick's debt showed total liabilities of \$2,912,986, of which \$2,759,000 consisted of issues of provincial debentures. Against these the province held assets of \$591,574, which left an excess of liabilities over assets amounting to \$2,321,412.³

As in the case of Quebec, the debt is almost entirely the result of assistance to railways. Even before confederation, New Brunswick had given more to railways than any other province, in proportion to her size; and since then she has not been less liberal. Her expenditure in this direction to June 30th, 1895, including pre-confederation expenditure, reaches a total of \$4,356,300, the largest sums being given as follows: ⁴

Albert railway	\$455,000
Fredericton railway	230,000
Grand Southern railway	575,000
New Brunswick and Canada railway	413,000
St. John and Maine railway	880,000
St. John Valley and Rivière du Loup railway	195,000

Of the various issues of provincial debentures which in 1895 formed part of the funded debt of New Brunswick, no less than \$2,003,800 worth, out of a total issue of \$3,098,800, was for the purpose of giving aid to railway enterprise.⁵ The summary⁶ appended (Table No. 1) fully explains the purposes for which the debt of New Brunswick has been incurred.

¹ Hon. D'A. McGee, Confederation Debates, p. 140.

² *Ante*, part I., pp. 15 and 24.

³ Public Accounts, New Brunswick, 1895, p. 1.

⁴ Report Department of Railways and Canals, Canada, 1895, p. 477.

⁵ Public Accounts, New Brunswick, 1895, p. 230.

⁶ *Ibid*, p. 230.

TABLE No. I.

NEW BRUNSWICK.

PROVINCIAL DEBENTURE STATEMENT.

Issued in aid of	Total issue.	Redeemed.	Outstanding.
Carleton branch railway	\$15,000	\$15,000	.....
Chatham branch railway	56,000	39,500	\$16,500
St. John suspension bridge	65,000	59,500	5,500
Woodstock bridge	25,000	23,000	2,000
Petitcodiac railway	70,000	1,000	69,000
Andover branch railway	51,000	.....	51,000
St. Martin's & Upham railway	145,600	14,600	131,000
Maduxnaking bridge	10,000	.....	10,000
Grand Southern railway	413,000	108,000	305,000
Kent Northern railway	135,200	79,200	56,000
New Brunswick & P. E. I. railway	105,000	.....	105,000
Harvey branch railway	9,000	.....	9,000
Funded debt	250,000	.....	250,000
Cataraquet railway	180,000	.....	180,000
Northern & Western railway	321,500	.....	321,500
Black Brook branch railway	20,000	.....	20,000
St. Louis & Richibucto railway	21,000	.....	21,000
Elgin & Petitcodiac railway	37,000	.....	37,000
Moncton & Buctouche railway	95,000	.....	95,000
Albert Southern railway	48,500	.....	48,500
Central railway	139,000	.....	139,000
Imported horses	30,000	.....	30,000
Temiscouata railway	66,000	.....	66,000
St. John bridge and railway extension	5,500	.....	5,500
Redemption	287,500	.....	287,000
Public bridges	275,000	.....	275,000
Tobique Valley railway	70,000	.....	70,000
Woodstock bridge	150,000	.....	150,000
Wharves and grain elevator, St. John	3,000	.....	3,000
Total	\$3,098,800	\$339,800	\$2,759,000

Amount at 6%..... \$646,000

“ 4½%..... 280,000

“ 4%..... 1,833,000

Total.....\$2,759,000 at average rate of 4.52%

The amount of the interest, 1895, was\$115,447

Balance in favor of province in Dominion Debt account... 531,185

TABLE No. II.
 PROVINCE OF NEW BRUNSWICK—DEBT AND ASSETS
 1882—1895.

Year ending 31st December.	Gross debt.	Total assets.*
1882.....	\$1,228,413	.....
1883.....	1,268,272	.....
1884.....	1,471,146	\$713,449
1885.....	1,696,918	638,449
1886.....	1,911,488	638,449
1887.....	1,999,735	596,449
1888.....	2,106,200	565,236
1889.....	2,159,749	539,449
1890.....	2,268,494	577,429
1891.....	2,484,560	590,468
1892.....	2,729,517	561,228
1893.....	2,752,297	568,733
1894, 31st October.....	2,821,484	568,654
1895, ".....	2,912,987	591,574

*Not including public buildings. Value of public buildings, about \$370,000. Crown lands, about 7,000,000 acres at \$1 per acre.

Statistical Year Book of Canada, p. 803.

Province of Nova Scotia.

The debt of Nova Scotia, at the time of the union, was stated at \$7,435,285.¹ By the terms of the British North America Act, 1867, she was allowed a debt of \$8,000,000, which left a balance in her favour of \$564,715. In 1869 by virtue of a special Act² she was given better terms, and her debt allowance increased to \$9,186,756. Since that date, in the two adjustments that have taken place, Nova Scotia has been allowed \$2,343,059 of additional debt by the Dominion. In July, 1895, the balance of debt in her favour in the Dominion Debt account amounted to \$1,056,274.³

Since 1882, the gross debt of the province has increased from \$98,718 to the respectable figure of \$3,346,897. Her net debt in 1895 amounted to \$1,988,094, which is equal to \$4.37 per head of

¹ Budget speech, Hon. John Rose, 1868, p. 7.

² 32-33 Vict., chap. 2.

³ Public Accounts, Nova Scotia, 1895, p. 216.

her population. The following is a statement of the debt in each year since 1882 :—

Year.	Gross debt.	Year.	Gross debt.
1882.....	\$ 98,718	1889.....	\$1,899,662
1883.....	1,362,237	1890.....	2,642,519
1884....	1,014,744	1891.....	2,990,402
1885.....	1,137,878	1892.....	3,133,761
1886.....	1,162,162	1893.....	3,142,922
1887.....	1,190,245	1894.....	3,167,493
1888... .	1,431,575	1895.....	3,346,899

From this statement it will be seen that the growth of the debt, while not rapid, has been steady. As is the case with all public debts in the Dominion of Canada, Nova Scotia's indebtedness has been incurred for the purpose of aiding railways and in the construction of public works. From the general capital account of the province¹ it appears that \$663,023 chargeable to capital has been spent on railways by the provincial government, \$315,423 going to aid the construction of the Nova Scotia Central railway. Further, \$2,084,158 was expended on various public works, the largest sums under this head being for the construction of bridges (\$1,365,849), roads (\$593,986), and the Victoria General Hospital (\$65,402). In addition to these expenditures there is the sum of \$217,301 spent on Capital account by the Department of Public Charities, which, together with various other amounts, makes a grand total expenditure on Capital account of \$3,338,678 up to September 30th, 1895.

As is stated above, the gross debt of Nova Scotia in 1895 was \$3,346,899. This liability comprises provincial debentures payable in Halifax, \$2,043,500; debentures payable in London, \$958,733; and special loans amounting to \$344,666. On the other side were assets amounting to \$1,358,806, the principal part of which consisted of the balance of \$1,056,238 in the Dominion Debt account.

Province of Manitoba.

In 1870 the province of Manitoba was created, and the federal government allowed it a debt of \$472,090.² In readjustments since that time the Dominion has assumed for this province \$3,303,516 more of debt, making a total assumption up to 1895 of \$3,775,606.

Since 1882 the debt of Manitoba has increased from \$108,151 to \$4,679,794. In 1883 there was a decrease of about \$25,000 in the

¹ Public Accounts, Nova Scotia, 1895, p. 260.

² Manitoba Act, Statutes of Canada, 1870.

gross debt, but with that exception there has been a steady increase each year. In 1886 the gross debt was \$1,497,620; in 1888 it amounted to \$3,163,982, and in 1894 to \$4,656,920. Again the increase in debt must be laid to the account of railways and public works, for Manitoba, though a young province, has not been backward in giving her aid to railway construction; the loans to railways amount to \$1,855,934, and bonuses to \$770,677 more, making a total of \$2,626,523.¹

The balance sheet² of this province at 31st of December, 1895, shows a total debenture indebtedness of \$4,439,859.98, but of this \$1,943,260 represents railway aid debentures handed over to and charged against the railways so aided, leaving the net debenture debt of the province \$2,496,599.98. This sum has been used to construct public institutions, such as asylums for the insane, the Deaf and Dumb Institute, the Home for Incurables, etc., and to subsidize railways³ with a view to opening up the country. The province has a balance in its favour in the Dominion Debt account, which, with the other assets shown on its balance sheet, amounting in all to \$7,878,261.29, is sufficient not only to meet all debentures and other liabilities, but also to leave a surplus of \$3,198,467.48.

Province of British Columbia.

In 1871 British Columbia entered the union with an allowed debt of \$1,666,200, which was equal to \$27.77 per head of her estimated population.⁴ Two important conditions of union were, that the federal government should proceed to build a railway to the Pacific coast, and that it should guarantee five per cent. for ten years on £100,000, to be spent in constructing a graving dock at Esquimalt. In 1874 it was enacted,⁵ that instead of the guarantee \$250,000 might be advanced annually during the progress of the work by the Dominion government, the subsidy being reduced proportionately. Since 1871 the Dominion has assumed additional debt for British Columbia amounting to a capital sum of \$1,363,192, which makes a total debt allowance for the western province of \$2,029,392. The balance in favour of the province in the Dominion Debt account of 1893-94 was \$583,021.

¹ Report of Department of Railways and Canals, Canada, 1895, p. 478.

² Public Accounts, Manitoba, 1895, statement No. 7, p. 233.

³ Statement furnished at request by D. H. McMillan, Provincial Treasurer.

⁴ *Ante*, p. 15.

⁵ 37 Vict., chap. 17.

⁶ Public Accounts, Canada, 1895, p. 51.

Since 1882 the gross debt of British Columbia has increased from \$800,566 to \$6,499,688 in 1895. The following statement of her debt and assets shows the increase year by year:—

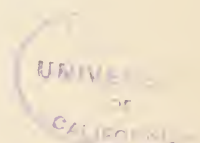
Year ending 30th June.	Gross debt.	Total assets.
1882	\$800,566	\$616,566
1883	961,778	633,176
1884	770,812	772,808
1885	800,258	850,021
1886	976,911	789,829
1887	1,157,001	797,165
1888	1,780,125	1,282,993
18-9	1,772,871	1,166,251
1890	1,797,820	1,125,314
1891	1,843,154	1,141,736
1892	2,876,036	1,842,424
1893	3,187,456	1,492,734
1894	3,904,807	1,506,039
1895	6,499,688	3,075,011

The increase of debt is again explained by the expenditure on public works. The aid to railways has been small, but there has been considerable expenditure on public buildings in various parts of the province, amounting to over \$1,675,000. In addition, very large sums have been spent during the last two years in the erection of splendid legislative buildings at Victoria, which are partly responsible for the increase of the debt in 1894-95.

Management of debt.—In 1891 an Act¹ of the British Columbia legislature was passed consolidating her debt. Therein it was enacted that whenever power is given the lieutenant-governor-in-council to borrow money by the sale of debentures or otherwise, he may borrow either in the mode prescribed by the Act authorizing the loan, or in the form of inscribed or registered stock to be termed "British Columbia Stock." Further it is provided that the lieutenant-governor-in-council may declare all or any of the debentures, issued under authority of any Act of the province, to be convertible into stock; and that he may authorize the issue of an equivalent amount of stock in exchange for debentures. Any such conversion of public securities into stock may be effected either by arrangement with holders of securities or by purchase out of money raised by the sale of new stock. To insure the fulfilment of these provisions another Act was passed in the same session,

¹ British Columbia, 54 Vict., chap. 13.

² 54 Vict., chap. 22.



which authorized the government to borrow a sum not exceeding £700,000, for the purpose of consolidating the debt of the province. This loan was to be raised by the sale of inscribed stock, and of the proceeds not more than £250,000 was to be applied otherwise than in the redemption of the loans of 1877 and 1887.

This process of conversion of British Columbia debentures into inscribed stock has been going on since the passing of the above Acts, and during its progress has caused an apparent, though not real increase in the gross debt during the past four years. When, however, the process of conversion is completed the burden of debt will be materially diminished. During the two years ending 30th of June, 1893, the amount of debentures of the loans of 1877 and 1887 redeemed by conversion into three per cent. inscribed stock under authority of the Loan Consolidation Act was as follows:—¹

Time from—	Debentures of 1877.		Debentures of 1887.	
	6% Debentures, Am't redeemed.	3% Stock issued therefor.	4½% Debentures, Am't redeemed.	3% Stock issued therefor.
1st July, 1892.	\$141,135	\$204,645.75	\$472,875	\$614,737.50
1st July, 1893.	55,290	80,170.50	21,340	27,742.00
1st Jan., 1893.	13,580	19,012.00	27,160	33,950.00
	210,005	303,828.25	521,375	676,429.50

STATEMENT No. 1

PROVINCE OF BRITISH COLUMBIA—DETAILS OF DEBT, 1895.

1. Loan Act of 1874.—\$20,000.
2. Loan Act of 1877.—£100,000, being the estimated amount not converted into inscribed stock [Original loan £150,000, less estimated conversion of £50,000.]
3. Loan Act of 1887.—£90,000, being estimated amount not converted into stock. [Original loan £205,400, less estimated conversion of £115,400.]
4. Loan Act of 1891.—Estimated amount of inscribed stock, £421,300.
5. Loan Act of 1893.—£123,700.
6. Loan Act of 1895.—Authorizes the borrowing of £420,000.
Supply Act, 1895, Chap. 51, B. C. Sessional Papers, p. 190.

¹ Public Accounts, British Columbia, 1892-3, page 9.

Province of Prince Edward Island.

The debt of Prince Edward Island in 1867 was \$244,673, or about \$2.97 per head of her population, the smallest debt of any of the provinces of Canada. In 1874 she entered the union with a debt of \$4,701,050, which was a *per capita* allowance of \$50.¹ The present bonded indebtedness of this province amounts only to \$185,000, at an interest rate of four per cent. There is also a floating debt, consisting of temporary loans, amounts for which the government is liable under the Loan Act of 1894, and other items, in all \$127,033.² The debt of Prince Edward Island has been incurred principally for the construction of wharves, bridges, gaols, etc. The debenture debt carries a sinking fund of 1½ per cent., or about \$2,775 annually. The debt account with the Dominion shows a balance (July 1st, 1895) of \$775,791 in favour of the province.³

Under the terms of union, the Dominion government allowed Prince Edward Island for the purchase of estates, (which had been granted by the Crown to large land-owners, and by them leased out at quit-rents to the detriment of the colony), the sum of \$900,000. Of this sum \$800,000 was to be paid to the province in cash, and interest *only* was to be given on the other \$100,000. Up to December 31st, 1895, the Dominion had paid \$760,821.56 on this "Land Purchase Account," and there remained a balance due of \$59,178.44, which forms part of the assets of the Island province at this date.

Province of Ontario.

An account of the debt of this province, when it was known as "Upper Canada," has been given above.⁴ It will be remembered that in 1873 the debt of the old province of Canada in excess of \$62,500,000, for which Ontario and Quebec were jointly liable, was assumed by the Dominion. Again, under the readjustment of 1884, Ontario became entitled to receive interest on a capital of \$2,848,289, which has been regularly paid by the Dominion ever since.⁵ At the present time, Ontario, though probably the province best provided with works of public utility in the confederation, has no

¹ Order in Council, Windsor, 26th June, 1873.

² Public Accounts, Prince Edward Island, 1895, p. v.

³ Public Accounts, Canada, 1895, Part II, p. 54

⁴ *Ante*, p. 35.

⁵ Budget speech, Hon. R. Harcourt, Provincial Treasurer, 1896, p. 39.

debt. There are indeed railway liabilities payable in the future, extending over thirty-nine years, but even with an estimate for these there is, and has been for many years, a handsome surplus of assets over liabilities presently payable. By an Act passed in 1884, the provincial government was empowered to defer payment of accruing railway liabilities in any one year, by the issue of new forty-year certificates, to take the place of the old certificates maturing during the year in question. No new liability was created by this Act. It merely authorized the postponement of the railway obligations of each year. As a matter of fact, the government has only availed itself of this provision in seven out of the twelve years that have elapsed since the Act was passed. In 1888, 1889, 1890, 1893 and 1894 the maturing railway certificates were met out of funds in hand.¹ During these twelve years, moreover, Parliament buildings, asylums and other public works have been erected at a capital expenditure of \$5,000,000, thus substantially adding to the provincial assets without increasing the liabilities. The financial condition of Ontario is certainly sound and satisfactory.

The following is a statement forwarded to the Department of Agriculture at Ottawa, in response to a request for a statement of the debt and assets of Ontario.²

Year ending 31st Dec.	Railway liabilities payable in future, extending over 39 years.	Surplus of assets over liabilities presently payable.
1882	\$2,813,123	\$4,825,586
1883	2,862,144	4,384,241
1884	2,709,942	6,859,666
1885	2,477,326	6,766,090
1886	2,229,344	6,680,339
1887	1,981,362	6,665,352
1888	1,733,379	6,734,649
1889	1,485,397	6,427,252
1890	1,404,620	5,809,995
1891	1,376,312	5,285,515
1892	1,401,598	5,878,758
1893	1,312,149	6,135,480
1894	1,556,410	5,269,841
1895	1,699,229	5,078,981

The assets include \$4,827,640 in favour of the province in Dominion Debt account. [Public Accounts, Canada, 1895, p. 51.]

¹ Budget speech, Hon. R. Harcourt, Provincial Treasurer, 19th Feo., 1896, p. 17.
² Statistical Year Book of Canada, 1895, p. 805.

PART III.

LOCAL INDEBTEDNESS.

PART III.

LOCAL INDEBTEDNESS.

THE governments of the provinces of Ontario and Quebec publish returns from time to time showing the state of municipal finances, but no such statements are issued by the other provinces. Hence it is difficult to give even an approximate estimate of the total amount of local debt in the Dominion, though the Department of Agriculture at Ottawa, which collects these statistics, calculates it at over \$100,000,000. It is probable that this figure is rather below than above the mark.

In Ontario and Quebec.—In the history of municipal debts in Quebec and Ontario, what is known as the “Municipal Loan Fund” has played a prominent part ; so that any account of local indebtedness in these provinces would be incomplete without some reference to it¹ This fund was an inheritance from the financial methods of an earlier period. It was established for Upper Canada by a statute passed² in 1852. The intention of its authors was to procure money for the use of the counties, townships, towns, and cities, at the cheap rate at which the government could obtain it. The borrowing powers given to the municipalities under the Act were unlimited in extent, but loans had to be approved by the governor-in-council, and were to be used only for the purpose of effecting public improvements.

Two years showed the evils of the system. Reckless municipalities plunged deeply into speculative undertakings, and their large expenditure brought down even provincial credit. Accordingly, an Act³ was passed in 1854, by which the fund was limited to \$7,300,000, and the extent to which a municipality might borrow was defined to be 20 per cent. on the aggregate valuation of the property on its assessment roll. The same Act created the Lower

¹ The account of the Loan Fund here given is from a report made on it in 1864 by Hon. John Simpson.

² 16 Vict., chap. 22.

³ 18 Vict., chap. 13.

Canada Municipal Loan Fund, which was to be subject to similar restrictions. By Act 22 Vict., chap. 15, 1859, it was provided that further loans to Upper Canada municipalities should cease, and that only \$400,000 more should be advanced to those of Lower Canada. In both Upper and Lower Canada the payments to be made by municipalities for the use of moneys from the fund were the same, viz., six per cent. annually for interest and two per cent. for sinking fund.

At this time there was a prevailing belief in the provinces that railways must pay handsome dividends wherever located and however managed. Consequently, many of the Upper Canada municipalities and a few of those in Lower Canada hastened to secure as much of the loan fund money as possible, and to invest it in the stocks and bonds of some railway, supposed to be of local interest. Disappointment followed, and those municipalities which had borrowed largely were quite unable to discharge their liabilities. Two Acts were therefore passed to meet the difficulty. The first (20 Vict., chap. 20) provided, in the case of municipalities in default, that as it might be inexpedient to press the collection of the whole sum due, the governor might issue his warrant to the sheriff directing what rate should be levied, but that it should not be less than $12\frac{1}{2}$ cents per dollar of the assessed yearly value of the property within the municipality. The second (22 Vict., chap. 15) provided that instead of the payments previously made by municipalities, a sum equal to five cents per dollar on the assessed yearly value should annually be paid to the government until principal and interest were paid in full. This payment was to form a first charge on the municipal funds, and no further liabilities were to be incurred by any municipality indebted to the fund until such indebtedness was discharged. It followed from these two measures that the government which was at first indirectly liable for the municipal loan fund debentures was now directly liable for them; they were therefore called in and the holders paid off. This arrangement was maintained with tolerable success until 1867.

At confederation the Municipal Loan Funds of Upper and Lower Canada were handed over to Ontario and Quebec respectively, as assets. The fund however, especially in Ontario, was anything but an asset. In 1868 there were twenty-one of her municipalities that had paid interest on their shares of the loan, and had sums at the credit of the sinking fund. Their total debt amounted to \$954,870. On the other hand twenty-six municipalities, holding

loans that reached a total of \$5,857,400, had fallen into arrears of interest to the extent of \$3,957,383, thus making their total indebtedness to the fund \$9,814,783, which sum there was little chance of recovering.

Ontario.—The amounts advanced to municipalities in Upper Canada out of the fund, had been disposed of as follows:—¹

	Spent on railways.	On local improvements.
Counties	\$1,380,000	\$845,000
Townships	812,000	15,000
Cities	575,000	.....
Towns	3,080,000	566,000
Villages	20,000	6,000
	<hr/>	<hr/>
	\$5,867,400	\$1,432,600
	<hr/>	<hr/>
Grand Total		\$7,300,000

Railways had thus absorbed eighty per cent. of the whole fund. In railway stocks was invested \$2,638,000, and \$3,229,400 more had been lent to aid railway construction. The town of Brantford had advanced \$400,000 for railways; the counties of Lanark and Renfrew \$800,000; the town of Brockville \$400,000; the town of Cobourg \$500,000; and the town of Port Hope no less than \$680,000, up to the time of Confederation.¹ The last named sum however was not cash, but stock taken in the Peterboro and Port Hope railway. The largest sum advanced to any municipality for local improvements was \$460,000, borrowed by the county of Northumberland and Durham, for the purpose of constructing gravel roads within the county. Goderich had spent \$40,000 on its streets, besides lending \$60,000 to a gravel road company. St. Catharines had invested \$52,000 in stocks and in loans to a gas company. Port Hope had advanced \$180,000 to its harbour commissioners and the county of Lincoln \$48,000 to a macadam road company.

In 1873 the Ontario legislature passed an Act to enable the government to recover some of the money owed to it on account of the Municipal Loan Fund.² This Act cancelled the balances due to

¹ Report, Department of Public Works, Canada, 1867, p. 611.

² Ontario, 36 Vict., chap. 47.

the fund by Dundas, Norwich, Prescott (town), Simcoe (town), Windham, Woodhouse and Woodstock, and reduced the indebtedness of the following municipalities to the amounts named, viz.:

Northumberland and Durham	\$223,665	Goderich	\$ 91,854
Perth	141,708	Hope	36,546
Ottawa	37,113	Port Hope	150,482
Barrie	2,128	Peterborough	72,430
St. Catherine's	165,182	Stratford	77,797
Cornwall	252	Brockville	135,375
Guelph	52,221	Chippewa	3,380
Lanark and Renfrew	32,269	Cobourg	69,580
Brantford	194,018	London	486,058
Chatham	103,478	Niagara	14,205
Elizabethtown	98,847	Ops	47,914

All other municipalities were to receive grants of various amounts from the surplus on hand, and the debentures to be issued by the indebted municipalities, or the proceeds, were to be distributed in proportion to population. Further, it was provided in the Act that the lieutenant-governor-in-council could compel the indebted municipalities to transfer any revenue-producing investments as security for the balance due, or, where such investments were greater than the debt, might require absolute transfer. Before September 1st, 1874, new debentures were to be issued by the indebted municipalities for the amounts above named, and the sums annually payable on them were to be sufficient to pay off the whole amount in twenty years. To municipalities entitled to receive grants interest was to be allowed on sums not paid by February 1st, 1874. The moneys when received were to be kept apart and applied in aid to railways, in constructing drains, building gaols, court-houses, schools, bridges, piers, etc., or to reduce obligations incurred for such work. The former obligations were to be kept in existence, as security for the new debentures of the indebted municipalities. Finally, the debts due to the Municipal Loan Fund were to be declared cancelled, so soon as the new debentures were paid off.

This "Surplus Distribution Scheme," as it was called, closed the history of the Municipal Loan Fund in Ontario. The following is a statement of payments made under its provisions up to November 1st, 1876.¹

¹ Quebec Sessional Papers, 1877, Vol. IX, part II, No. 10.

Total amount of principal paid	\$2,604,430
“ “ interest “	123,000
	<hr/>
	\$2,727,430
	<hr/>
Total amount appropriated under the Act.....	\$5,115,736
Less principal as above	2,604,430
	<hr/>
Balance	\$511,306

Quebec.—The total amount of money advanced from the Municipal Loan Fund to the municipalities in Lower Canada was much less than in Upper Canada. It was only \$2,428,540, of which \$955,440 had been spent in aid of railways and the balance, \$1,473,100, for local purposes.¹ It is significant that the aid to railways was only one-sixth of that given in Upper Canada. The largest borrowers were the county of Shefford (\$215,000), the city of Three Rivers (\$220,000), and Montreal (\$800,000). The following is a statement of the position of the fund in Quebec at confederation:—

Municipalities.	Advanced for railway purposes.	Advanced for local purposes.
Counties	\$517,440	.....
Townships	211,000	\$161,275
Cities	210,000	876,000
Towns .....	.....	170,000
Villages	2,000	91,500
Parishes	15,000	174,325
	<hr/>	<hr/>
	\$955,440	\$1,473,100
	<hr/>	<hr/>
Grand total.....		\$2,428,540

From confederation until 1877, the province of Quebec received annually small payments on account of the Municipal Loan Fund. In 1877-8, however, and for the next two years, nothing was paid. This led to the passing of an Act by the Quebec legislature in 1880,² by which a special commissioner was appointed to collect moneys owing on account of the fund. It was further provided that each municipality should issue debentures to the amount of its indebtedness to the Municipal Loan Fund, which should be given to the treasurer of the province in settlement of its claim, and that upon payment of these debentures, which were to be redeemable within a period not exceeding forty years, the municipality should receive a

¹ Report, Department of Public Works, Canada, 1867, p. 609.

² 43-44 Vict., chap. 13.

discharge for all amounts due to the fund. The province claimed the original amount of the loan, together with twelve years' interest at five per cent., less the amount of interest so far paid and the amount of the sinking fund.

Under this Act over \$500,000 was received by the province in 1881-82. Many of the municipalities, however, demurred. For instance, Sherbrooke was asked for \$50,740. The town council represented that they had understood that this loan would never be collected, that under this belief they had spent large sums, and that they were unable now to repay the amount. They offered \$31,671, which was accepted.¹

Since confederation the province of Quebec has received the following sums on account of the Municipal Loan Fund :—

Year.	Amount.	Year.	Amount.
1867-8	\$5,557	1881-2	\$554,146
1868-9	5,703	1882-3	34,120
1869-70	5,917	1883-4	5,788
1870-1	15,865	1884-5	42,671
1871-2	20,303	1885-6	102,361
1872-3	13,465	1886-7	5,380
1873-4	16,174	1887-8	4,891
1874-5	191,370	1888-9	85,538
1875-6	3,480	1889-90	3,200
1876-7	1,167	1890-1 .....	.....
1877-8 .....	.....	1891-2	3,000
1878-9 .....	.....	1892-3 .....	.....
1879-80 .....	.....	1893-4 .....	.....
1880-1 .....	.....	1894-5 .....	.....

Abstract from Quebec Sessional Papers, 1894, No. 10, Statement C.

Municipal Debt in Ontario.

By section 382 of the Municipal Code of Ontario every council is obliged to transmit, on or before January 31st in each year, to the Minister of Agriculture, an account of the several debts of the corporation as they stood on the 31st of December preceding, with a

¹Quebec Sessional Papers, 1882-83, p. 65.

statement, giving the original amount of every debt, the date when contracted, the amount redeemed, the rate of interest, and many other particulars. This information is required both because the statistics are generally useful, and also because the government desires to keep a watchful eye on the ever increasing municipal debt. In addition to this regulation, the two following restrictions have been placed on the debt-incurring power of municipalities of Ontario :—(1) Any by-law authorizing an increase of debt must receive the sanction of those who pay taxes; and (2) the rate of municipal taxation for all purposes (exclusive of school rates) shall not exceed two cents per dollar of the assessed value.² The second safeguard has proved of little value.³ A maximum of two cents per dollar is very high, and the power to borrow money may be increased indefinitely, by merely increasing the assessed value of the property. Moreover, the general introduction of the local improvement system enlarges the power to borrow, as debts incurred for such purposes are not considered part of the general indebtedness. Money borrowed to pay for waterworks, and for other works of the kind purchased or constructed by a municipality, is also in most cases not taken into account in determining whether the limit of indebtedness has been reached. Nor has the first safeguard proved very satisfactory; it is often a small vote by which the ratepayers consent that very large liabilities shall be incurred, and the more frequently they are called upon to decide such matters the smaller does the vote become. It would be better if at least a majority were required of all those entitled to vote.

The municipalities of Ontario consist of cities, towns, villages, counties, and townships, and the total local indebtedness of the province is therefore the aggregate of the debts of these five classes of communities. In 1873, the earliest date for which records are available, the total bonded debt of the municipalities of Ontario was \$16,732,225. Of this amount \$11,066,567, or about 59 per cent., was urban debt, *i. e.*, debt of towns, cities and villages. By 1894 the total local debt had trebled, and stood at \$49,118,818. No less than \$4,773,598, or about 90 per cent., consisted of urban debt, the total for the cities alone reaching \$33,562,793.⁴ The

¹ 55 Vict. c. 42, sec. 344.

² *Ibid.*, sec. 357, clause 1.

³ Report of the Commission on Municipal Institutions, Ontario, 1881, page 56.

⁴ Return (No. 68) to order, passed by the Ontario legislative assembly, 25th March, 1895, p. 23.

following statement shows the growth of the municipal debt year by year :

Year.	Bonded debt.	Floating debt.
1873.....	\$16,732,225	\$1,067,859
1874.....	17,459,640	1,910,833
1875.....	18,973,426	1,694,392
1876.....	21,617,423	2,263,156
1877.....	21,866,809	1,390,688
1878.....	23,936,418	2,224,027
1879.....	24,965,037	1,515,276
1880.....	24,718,498	1,176,177
1881.....	25,159,635	1,605,217
1882.....	25,411,286	1,666,983
1883.....	26,366,684	2,092,930
1884.....	27,114,682	3,712,506
1885.....	28,663,771	3,920,390
1886.....	29,924,863	4,841,717
1887.....	31,943,320	5,645,208
1888.....	34,729,527	6,437,763
1889.....	38,988,332	6,493,519
1890.....	40,720,985	8,387,186
1891.....	43,888,853	7,629,730
1892.....	47,166,962	6,469,899
1893.....	48,083,243	6,796,422
1894.....	49,118,818	6,529,774

Abstract from—

Report of Bureau of Industries, Ontario, 1884. Table 36.

do do do 1888, Part 6.

Return No. 68, made to Legislature, Ontario, 1895.

Urban Debt in Ontario.

Cities.—From the foregoing statement it will be seen that the growth of the local debt of Ontario has been steady for the past two decades. As noted above, the urban debt especially has increased very rapidly. The necessity of constructing sewer systems, making and paving streets, laying down sidewalks, establishing water and gas works, and giving bonuses to manufacturers and railways, all within a few years, explains the increase. There are twelve cities in Ontario, and their total debt in 1895 was not far from \$35,000,000. The bulk of this sum was made up by the debt of Toronto, which is over \$21,000,000. Hamilton, London, and Ottawa are the only other cities whose debt is over \$1,000,000. The smallest debt amongst the cities is that of Stratford, which in 1895 amounted to \$323,847. The bonded indebtedness of Belleville

in 1894 was \$411,000, largely made up of railway bonuses (\$91,000), aid to schools (\$90,000), and money expended on roads and bridges. Brantford's debt amounted to \$820,449, of which \$134,016 was local improvement debenture debt, and \$215,000 money spent on construction of waterworks. Another comparatively large debt is that of Windsor, which stood at \$866,325 in 1894. \$221,406 of this amount was spent on a sewer system, and over \$200,000 more constituted local improvement debenture debt. St. Catherine's in 1894 had a bonded debt of more than \$800,000, of which \$304,946 consisted of debentures issued to construct waterworks, and \$80,000 represented bonuses to railways.¹ In 1895, the liabilities of Kingston were \$913,725. Over \$60,000 was debt incurred to aid public and high schools, and \$274,000 was the amount spent on the municipal waterworks.²

In 1895, the four largest municipal debts in Ontario were those of Toronto, Hamilton, London and Ottawa, which deserve more extended notice.

Toronto.—The progress of Toronto in population during the past fifteen years has been very great, but the growth of its debt has more than kept pace with that of its numbers. In 1871 the general city debt was but \$2,712,207, and the local improvement debt \$92,533. By 1881, the general debt had more than doubled, and the improvement debt had increased four-fold. In 1891, ten years later, the general debt amounted to \$11,509,590, and the local improvement debenture debt to \$2,726,857. In 1895, the general debt stood at \$12,474,509, and the local improvement debt had reached the large figure of \$9,052,270, an increase in the latter of no less than \$6,325,412 in five years!³ We have not far to seek for the cause of the vast increase. Rapid growth of population led to a "land boom;" streets far into the suburbs, where there was nothing but vacant land, were laid out, paved and lighted. The assessment figures show the inflation of land values. In 1881, the total assessment was \$53,540,910, in 1892 it was \$151,093,328. In 1895 it was reduced to \$146,427,000, and it is probable that the present year will see a decrease in the assessment of from \$15,000,000 to \$20,000,000.

An analysis of the present general debenture debt of the city is interesting, as showing the causes of the increase of debt. The

¹ Return No. 68, made to Legislative Assembly, Ontario, 1895.

² Auditor's Report, Kingston, 1895, p. 41.

³ Statements *re* Debenture Debt of Toronto, issued by order of Council, 31st December, 1895.

following is a statement of the purposes for which debentures were issued, and the several amounts :

General city purposes.....	\$1,084,795
City's proportion, local improvements.....	109,449
Exhibition park.....	150,000
Ashbridge's Bay improvements.....	140,000
Gaol and House of Refuge.....	163,129
New City and County buildings.....	1,649,992
Volunteer Drill Shed site.....	111,589
Garrison Creek sewer.....	214,997
Don River improvements.....	699,991
Island breakwater.....	99,995
Esplanade.....	921,896
Railway aid.....	1,143,717
Public schools.....	1,292,667
Collegiate institutes.....	189,035
Separate schools.....	50,696
Industrial schools.....	54,206
Public library.....	60,496
Rosedale Ravine sewer.....	137,496
King Street subway.....	230,204
Queen Street subway.....	42,012
Horticultural Gardens.....	50,499
Public parks.....	145,349
Waterworks.....	3,732,287
Total.....	\$12,474,509 ¹

From this it will be seen that one of the greatest expenditures has been for educational purposes, amounting to \$1,532,398. The large sum of \$1,649,000 has been spent in the erection of the municipal buildings, which are not yet near completion. If to the direct railway aid we add the expenditure on the esplanade and the two subways, we get a total of \$2,337,829 which may be called expenditure incurred on behalf of railways in Toronto. On examination of the local improvement debt, it is found that the largest amount under any one head is that spent on pavements, viz., \$2,409,737; the next largest is that on sewers, \$1,869,826. In addition to these two sums, \$867,793 was expended on streets, and \$442,699 on sidewalks.²

¹ Toronto: Statement *re* Debenture Debt, 1895, p. 31.

Ibid, pp. 7-9.

The following is a statement of Toronto's debt for each year since 1871 :

Year.	General city debt.	Local improvement debt.
1871.....	\$2,712,207	\$92,533
1872.....	2,584,651	102,733
1873.....	2,674,984	122,733
1874.....	3,934,237	170,293
1875.....	4,264,307	220,884
1876.....	5,158,071	220,884
1877.....	5,949,071	322,238
1878.....	5,894,565	322,238
1879.....	6,075,791	443,705
1880.....	5,853,915	465,094
1881.....	5,902,266	621,292
1882.....	6,040,387	855,151
1883.....	6,184,338	789,951
1884.....	6,473,173	1,159,464
1885.....	7,107,470	1,112,792
1886.....	7,460,833	1,384,130
1887.....	8,333,276	1,561,346
1888.....	8,814,967	1,620,405
1889.....	11,509,590	2,583,970
1890.....	11,407,590	2,726,857
1891.....	10,092,373	6,951,809
1892.....	11,039,353	8,267,928
1893.....	11,152,353	8,953,589
1894.....	11,099,131	9,269,180
1895.....	12,474,509	9,052,270 ¹

Thus the gross debt on 31st December, 1895, was \$21,526,779. Sinking funds, however, reduced the general debenture debt to \$11,750,725 and the gross local improvement debt to \$5,424,160, leaving the total net debenture debt \$17,174,885 at the end of 1895.²

Hamilton.—In 1895, the gross debt of Hamilton amounted to \$3,812,003.³ Of this sum, \$208,000 has gone in aid to educational institutions, public and high schools; \$1,587,870 has been spent in constructing waterworks; \$144,000 more for asphalt pavements, and other sums on the Public Library and House of Refuge, and as a bonus to smelting works. Her aid to railways has reached \$500,000. On December 31st, 1895, the net debt amounted to \$3,127,379.

London.—The debenture debt of the city of London was \$2,103,021 in 1895. This, together with a floating debt of \$218,204,

¹ Toronto: Statement *re* Debenture Debt, 1895, p. 121.

² *Ibid*, p. 118.

³ Financial statement, City of Hamilton, 1895, p. 107.

made the city's total liabilities \$2,321,226.¹ Debentures for the sum of \$515,351 were issued to raise money for the construction of waterworks; \$180,000 more was the amount contributed by London to aid the Canadian Pacific, the London and South-Eastern, and the London and Port Stanley railways. There have been two consolidations of the debt, one in 1872, to the extent of \$219,486, and one in 1895, amounting to \$1,022,000. Last year the balance sheet of the city showed total assets of \$2,742,631, which is an excess over her liabilities of \$421,404.²

Ottawa.—The debt of Ottawa in 1895 was \$2,682,907, and the rate of interest paid upon it averaged 5½ per cent. Of this debt no less than \$1,399,584 was incurred for waterworks construction; \$450,000 more was spent on the sewer system, \$175,000 on roads and bridges, while aid to railways came to \$100,000.³

From an examination of the debts of these four cities, it is seen that the heaviest part of the debt has been that incurred in constructing municipal waterworks. Roads, bridges, and pavements have also been very costly, and together with expenditure on sewer systems and aid to public and high schools make up the bulk of the debt. The indebtedness of the twelve cities of Ontario may now be summarized, and the purposes for which the debt was incurred specified as follows :

¹ Auditor's Report, City of London, 1895, p. 17.

² *Ibid.*, p. 18.

³ Return to Legislative Assembly of Ontario, March 19th, 1896, p. 1.

INDEBTEDNESS ON 31ST DECEMBER, 1894.

Municipality.	Roads and bridges.	Railway bonuses.	Bonuses to manufacturers.	Municipal water-works.	Gas and electricity.	High and Public Schools.	Sewers.	Other purposes.	Local improvement debt.	Total.
Belleville	\$ 64,000	\$ 91,000	\$	\$	\$ 29,000	\$ 90,000	\$ 30,000	\$ 107,000	\$	\$ 411,000
Brantford	45,000	50,000	20,000	215,000	. . . . .	40,000	80,000	236,000	134,016	820,449
Guelph . . . . .	. . . . .	. . . . .	. . . . .	80,556	. . . . .	16,181	. . . . .	373,070	13,428	483,238
Hamilton	150,000	500,000	. . . . .	942,000	. . . . .	163,459	44,449	1,250,750	87,173	3,138,732
Kingston . . . . .	. . . . .	146,191	. . . . .	278,000	. . . . .	59,100	51,761	263,266	13,584	831,904
London . . . . .	. . . . .	65,000	. . . . .	464,628	. . . . .	50,000	. . . . .	1,472,392	188,977	2,240,939
Ottawa	175,000	100,000	. . . . .	1,399,584	. . . . .	169,000	450,000	147,740	336,445	2,777,769
St. Catherine's . . . . .	. . . . .	80,000	. . . . .	304,946	. . . . .	8,000	30,000	349,903	33,330	806,100
St. Thomas	4,496	48,215	4,870	120,003	. . . . .	9,943	24,496	133,349	114,397	459,773
Stratford	29,000	145,000	2,800	. . . . .	. . . . .	40,500	10,309	190,500	. . . . .	358,109
Toronto	4,291,864	1,030,717	. . . . .	3,732,287	. . . . .	1,434,471	2,464,449	4,446,942	2,787,579	20,368,312
Windsor . . . . .	. . . . .	. . . . .	. . . . .	104,623	15,000	107,205	221,406	215,756	202,335	866,325
Total	4,759,360	2,256,125	37,670	7,642,530	44,000	2,137,861	3,566,871	9,167,105	3,911,269	33,562,793

Return No. 68. Legislative Assembly, Session of 1896, pp. 1 and 23.

Towns.—On December 31st, 1894, there were ninety-six towns in Ontario, and their total debt amounted to \$8,987,092. Though this is the latest information available, it is probable that there has been a considerable increase in the total since that date. The debt was incurred for the following purposes:—¹

Roads and bridges	\$581,170
Railway bonuses	854,109
Bonuses to manufacturers.....	555,488
Municipal waterworks	1,528,891
Waterworks companies	153,217
Gas and electricity	322,800
High and public schools.....	1,102,398
Sewers.....	497,550
Other purposes	2,449,611
Local improvement debenture debt.....	911,855
Total	<u>\$8,987,092</u>

The largest town debt was that of Toronto Junction, \$779,093, the only one over \$500,000. The smallest was that of Thornbury, \$907. The ninety-six towns may be grouped as follows, according to amount of debt:—

33 whose debt was under	\$ 25,000
19 " " between	25,000 and \$ 50,000
29 " " " 	50,000 " 100,000
14 " " " 	100,000 " 200,000
6 " " " 	200,000 " 300,000
1 " " " 	300,000 " 400,000
3 " " " 	400,000 " 500,000
1 " " over	500,000

Toronto Junction.—The debt of the town of Toronto Junction is worthy of special notice. At December 15th, 1895, it amounted to \$956,400, of which \$103,200² was secured by consolidated local improvement debentures. This debt is almost one-fourth of the town's assessment—\$4,508,538, and was almost wholly incurred between 1888 and 1893, during which time the town underwent a "boom" and enjoyed a period of apparent prosperity. By 1894 the total amount of debentures outstanding was close upon \$1,000,000, issued principally for the following purposes:—³

Waterworks	\$185,700
Public schools.....	84,074
Sewers	148,600
Subway.....	333,357

¹ Ontario, Sessional Papers, 1896, No. 68, p. 23.

² Financial Statement, Toronto Junction, 1895, p. 42

³ Ibid.

In 1894, upon the petition of the town, an Act consolidating the debt was passed by the legislature. It was, however, found impossible to dispose of the debentures authorized by this Act, and, to increase the difficulty, the corporation found itself unable to collect sufficient from the taxpayers to meet the interest on the old debentures outstanding. In 1895, therefore, the corporation again petitioned the legislature to consolidate the whole debt, including debentures issued for local improvements. Accordingly, an Act was passed¹ giving the town power to issue debentures for a sum not exceeding \$900,000 for the purpose of redeeming the general debt, and for a sum not exceeding \$150,000 to redeem local improvement debentures outstanding. The issue of \$900,000 was to bear interest at $4\frac{1}{2}$ per cent., and a special rate was to be levied by the council during the years 1895-1934 to raise an amount sufficient to redeem these debentures by January 2nd, 1935. The debentures to be issued to redeem outstanding local improvement debentures were divided into two classes, payable in 1907 and 1915 respectively, both classes to bear interest at $4\frac{1}{2}$ per cent. The council was authorized to compel every ratepayer to pay his quota, the penalty for arrears of fifteen days' duration being fixed at an addition of ten per cent. to the overdue payment. If the arrears continued for twelve months the corporation could seize and sell the land for taxes. It does not appear, however, that this consolidation has been any more successful than its predecessor. The financial difficulties of the town have increased rather than diminished during the past year, for, the inflation of real estate values having subsided, it has been necessary to cut down the assessment and curtail expenses. The taxes collected have been decreasing in amount, and the town appears to feel the full weight of its debt. The latest development in regard to the finances of the town has been an ultimatum handed in to the council by the bondholders (September 6th, 1896) in which the latter agree to reduce the interest on the debenture debt from $4\frac{1}{2}$ to $2\frac{1}{4}$ per cent. for one year only. Should this offer be accepted, the rate of taxation for 1897 would be struck at 30 mills, which is equivalent to 13 mills on last year's assessment.

Cobourg.—It should be noted that in 1892 the town of Cobourg petitioned the legislature to the effect that, inasmuch as \$216,371 of its debt matured between 1891 and 1893 and could not be met, the corporation be therefore permitted to consolidate the debt. Power was accordingly given to the town to raise by way of a loan

¹ Ontario, 58 Vict., chap. 90.

on the credit of 35-year debentures a sum sufficient to retire the maturing debentures.¹ A considerable part of Cobourg's debt was incurred in making harbour improvements and in giving bonuses to manufacturers.

Villages.—There are one hundred and twenty-eight villages in Ontario, and in 1894 their total indebtedness was \$1,223,713, incurred for the following purposes²:—

Roads and bridges	\$ 36,789
Railway bonuses.....	158,970
Bonuses to manufacturers.....	104,465
Municipal waterworks.....	255,750
Waterworks companies	14,281
Gas and electricity.....	13,284
High and public schools	342,283
Sewers	5,988
Other purposes	221,935
Local improvement debenture debt	69,963

In 1894 fifty-two villages in Ontario had debts of less than \$5,000 each; twenty-eight others had debts of between \$5,000 and \$10,000, and thirty-eight had debts of over \$10,000 each.³ The debt of Merriton, \$72,409, was the largest amongst village debts, and that of the village of Erin, \$10.16, the smallest.

Rural Indebtedness in Ontario.

Counties.—In cities, towns and villages, no by-law to raise a loan can have any legal effect until it has received the assent, by public vote, of the ratepayers of the municipality. In counties, however, the county council may raise by by-law, without submission to the electors, any sum not exceeding in a single year \$20,000.⁴

In 1894 the total county debt of Ontario was \$2,402,868. Of this, \$960,033 had been incurred in making roads and constructing bridges, \$540,548 was the amount of railway bonuses, and \$306,933 was local improvement debenture debt.⁵ Twelve out of the thirty-nine counties had debts of over \$50,000. The largest debt was that of Middlesex (\$519,900), which had been almost wholly incurred in constructing roads and bridges. The other county debts of which returns have been given were as follows:

¹ Statutes of Ontario, 55 Vict. c. 67.

² Ontario Sessional Papers, 1893, No. 68, p. 23.

³ *Ibid.*, pp. 5 to 8.

⁴ Municipal Act of Ontario, 55 Vict. chap. 42, sec. 344, subsect. 1.

⁵ Ontario Sessional Papers, 1896, No. 68, p. 23.

Brant	\$15,440	Ontario	\$21,645
Bruce	20,000	Oxford	149,794
Carleton	55,000	Perth	210,000
Dufferin	19,155	Peterborough	63,051
Elgin	15,000	Prescott and Russell ...	13,347
Essex	18,800	Prince Edward	32,280
Frontenac	186,774	Rainy River	46,794
Grey	26,000	Renfrew	45,266
Haliburton	9,141	Simcoe	53,200
Huron	262,700	Stormont and Dundas ...	70,391
Kent	33,352	Victoria	85,000
Lennox and Addington..	120,300	Waterloo	29,328
Lincoln	18,115	Welland	8,412
Hastings	140,130	Wellington	10,000
Northumberland and Dur-		Wentworth	31,553
ham	13,400	York	58,196 ¹

Townships.—The last class of local debts in Ontario to be considered is the “township debt.” In Ontario there are 491 townships, and according to the latest returns furnished (December 31st, 1894), their total indebtedness amounts to \$2,942,349. \$844,930 of this debt has been incurred for bonuses to railways, and \$504,293 in aiding schools. On roads and bridges \$137,783 has been spent and now forms part of the general debt. The local improvement debenture debt amounts to \$861,821.² Of the whole number of townships, 409 had a debt in 1894 of less than \$10,000 each, and the remainder were classed as follows:

48 with debts between	\$10,000 and \$20,000
18 “ “	20,000 and 30,000
10 “ “	30,000 and 50,000
6 “ above	50,000

In the case of these last named townships the bulk of the indebtedness was made up of local improvement debenture debt.

Summary.

The results of this examination into the local indebtedness of Ontario are summarized on the following page by a statement showing the total amounts by cities, towns, villages, counties and townships of the municipal indebtedness detailed above. It may be added that the ratio of debenture debt to assessed values has increased for all municipalities from 4.3 per cent. in 1886³ to a little over 6 per cent. in 1894. For the cities, the ratio was 11.9 per cent. in 1886, and nearly 14 per cent. in 1894.

¹ Ontario Sessional Papers, 1896, No. 68, pp. 9 and 10.

² *Ibid.*, p. 23.

³ Report, Bureau of Industries, Ontario, 1892, Part VII., p. xiv.

STATEMENT SHOWING THE MUNICIPAL INDEBTEDNESS OF ONTARIO ON 31ST DECEMBER, 1894, AND FOR WHAT PURPOSES INCURRED.
(LATEST RETURN).

	Cities.	Towns.	Villages.	Counties.	Townships.	Total under each head.
1. Roads and bridges	\$ 4,759,360	\$ 581,170	\$ 36,789	\$ 960,033	\$ 137,783	\$ 6,475,139
2. Railway bonuses	2,256,125	854,109	158,970	540,548	844,930	4,654,684
3. Bonuses to manufacturers	37,670	585,488	104,465	21,169	.....	738,793
4. Municipal waterworks	7,642,530	1,528,891	255,750	.....	11,722	9,438,894
5. Waterworks companies . . . . .	.....	153,217	14,281	.....	650	168,144
6. Gas and electricity	44,000	322,800	13,284	.....	1,807	381,892
7. High and public schools	2,187,861	1,102,398	342,283	15,788	504,293	4,153,614
8. Sewers	3,566,871	497,550	5,988	2,000	1,385	4,073,796
9. Other purposes	9,167,105	2,499,611	221,935	556,394	576,969	12,972,015
10. Local improvement debt	3,911,269	911,855	69,963	306,933	861,821	6,061,842
Grand totals	33,562,793	8,987,092	1,223,713	2,402,868	2,942,349	49,118,818

Return to an Order passed by the Legislative Assembly of Ontario on 25th March, 1895, for a return showing municipal indebtedness.

ONTARIO SESSIONAL PAPERS, 1896, No. 68, p. 23.

Provincial Secretary's Office, March 19th, 1896.

Municipal Debt in Quebec.

In the province of Quebec the powers of borrowing accorded to municipalities are limited, under the Consolidated Municipal Loan Act, to twenty per cent. of the aggregate valuation of the property in the municipality at the time of the last by-law authorizing a loan. By-laws to raise loans are only of effect when approved by a numerical majority of the proprietors who are municipal electors.¹ Further, the assent of the lieutenant-governor-in-council is necessary to the by-law, and proof is then required that the demands of the law have been fully met. When the interest and sinking fund of the sums borrowed by a town absorb one-half of its revenues, the council cannot contract a new loan without having been specially authorized by the lieutenant-governor-in-council.² Finally, it is made a condition precedent to the legality of any by-law authorizing the issue of debentures, that a sinking fund of at least one *per centum per annum* for each loan be provided.³

This province, like Ontario, attempts to collect statistics referring to municipal finances. The latest returns are for the year ending 31st December, 1894, and they give the total municipal liabilities of Quebec, at that date, as \$6,179,902.31.⁴ These figures, of course, do not include the debt of the city of Montreal, and indeed so many municipalities have failed to make their returns that the total can only be regarded as approximate. Two-thirds of the amount here given as the municipal liability is made up of the liabilities of only eleven towns, viz., Sorel, Valleyfield, Longueuil, Maisonneuve, Ste. Cunégonde, St. Henri, Levis, Hull, Sherbrooke, St. Hyacinthe and Three Rivers. When this fact is known it will be apparent that the debts of the hundreds of other municipalities in Quebec are insignificant. Wherever they do amount to any considerable sum, they are largely the result of aid given to railways; for example, the largest county debt stated is that of Pontiac, \$214,650, and of this amount \$100,000 is liability incurred in aiding the Pontiac and Pacific Junction railway.⁵ The total amount of aid given to railways by the municipalities of Quebec (excepting Montreal) is \$3,309,074, or over fifty per cent. of their total liability as stated in 1894.⁶ Besides the municipalities

¹ R. S. Q., 1888, c. 29, sec. 354.

² *Ibid*, sec. 355.

³ *Ibid*, sec. 349.

⁴ *Rapports Municipaux pour l'année 1894, Quebec.*

Report, Department of Railways and Canals, Canada, 1894, p. 486.

⁶ *Ibid*, p. 487.

above named, sixteen municipalities had liabilities exceeding \$25,000 each in 1894.¹

Urban Debt in Quebec.

By an Act² passed by the legislature of Quebec in 1889, Montreal was given permission to issue permanent debenture stock to an amount not exceeding 15 per cent. of the city's total realty assessment. Enough of the proceeds of such issue was to be set aside and used exclusively to redeem the existing debt, and the remainder was to be used for waterworks, drainage, street improvement, public markets and hospitals.³ In 1894 an Act in amendment was passed⁴ limiting the borrowing power of the city for the next four years to 15 per cent. of an assessed value not exceeding \$160,000,000, and thereafter to 15 per cent. of the assessed value of the taxable property. It was understood that \$1,000,000 of the new loan was to be used to meet the present engagements, and that the balance in annual payments of \$375,000, extending over the four years to come, was for carrying out permanent improvements during that time.

The debt of Montreal deserves notice as the largest municipal liability in Canada. On the 31st of December, 1894, the funded debt had reached a total of \$23,459,094, made up as follows :

7 per cent.	Permanent registered stock	.....\$	586,500
7	“ Terminable registered stock	.....	51,000
6	“ Registered stock	.....	678,400
5	“ Registered stock	.....	240,000
5	“ Sterling bonds	.....	3,586,727
4	“ Stock and bonds	.....	2,931,800
3	“ Sterling loan, 1888-90	.....	7,008,000
4	“ Terminable stock of 1892	.....	4,866,667
4	“ “ 1893	.....	200,000
4	“ “ 1894	.....	2,000,000
3½	“ Harbour improvement loan	.....	1,000,000
7	“ Hochelaga bonds	.....	90,000
7	“ St. Jean Baptiste bonds	.....	35,000
7	“ Coté St. Louis bonds	.....	20,000
7	“ “	.....	100,000
6	“ St. Gabriel bonds	.....	65,000

\$23,459,094

[*Report of the Treasurer of Montreal, 1894, p. 17.*]

¹ Rapports Municipaux, Quebec, 1894.

52 Vict., chap. 79.

Ibid., sec. 130.

57 Vict., chap. 56.

During 1895 there was no addition to the funded debt. As a matter of fact the law of 1889, which limited the city's borrowing power to \$24,000,000, prevented any large increase of the debt. But the expenditure in excess of revenue arising from the engagements contracted by committees over and above their annual appropriations, which had been carried forward from year to year, amounted to \$800,000, and the legislature authorized the transfer of this sum to the consolidated debt. This addition, with another transfer made at the previous session has so reduced the available borrowing power of the city as to interfere seriously with its ability to carry out its obligations.¹ On December 31st, 1895, Montreal had a floating debt of \$5,968,319, which, added to the funded debt, made a total liability of \$29,427,413.² It has been incurred by expenditure on waterworks, parks, markets, opening and paving streets, harbour improvements, etc. The following are some of the largest items³:

Waterworks.....	\$8,618,806
Mount Royal Park.....	1,033,337
Market properties.....	849,972
City hall.....	524,338
Streets—opening and widening.....	3,290,861
sewers.....	1,493,379
pavement.....	3,868,784
Grant to railways.....	769,012
Harbour improvements..	603,129

The lavish expenditure of Montreal during the past few years has finally resulted in financial embarrassment, and means of extricating the corporation from its difficulties are now under discussion. The borrowing power of the city is limited to \$26,838,000, but that figure has been exceeded by \$407,164. It is absolutely necessary (1896) not only to pay off the excess, but to meet further engagements amounting to \$522,606. Moreover, there are works estimated to cost about \$500,000 which must be carried out, but which cannot be paid for out of current revenue. It was decided some time ago to ask the legislature to increase the borrowing power by \$2,000,000, but a refusal was anticipated, as the present limit, established in 1893, was fixed on the distinct understanding that it should last for four years. The council, therefore, have decided that in case of refusal the legislature should be asked to authorize the

¹ Report of the Treasurer, City of Montreal, 1895, p. 2.

² *Ibid.*, p. 5.

³ Report of the Treasurer, Montreal, 1894, p. 76.

city to make a temporary loan of \$1,500,000 for a period not exceeding two years, to be issued only as required for certain specified purposes. By this means another year will be tided over and then the borrowing power can be extended. In the meantime, there is a possibility that the assessment may be largely increased by bringing the vacant property of religious institutions into the classification of taxable property.

The total debt of the municipality of Quebec is \$6,458,016, over two-thirds of which is held in England. The part payable in Canada amounts to \$2,036,750, including \$572,900 of permanent or non-redeemable debentures.¹ This indebtedness is made up of loans contracted in building an aqueduct, in developing a sanitary system, in providing electric light, public halls, civic hospitals, etc. A considerable part of the debt will shortly mature, and for some time past various projects of conversion have been discussed. In 1896 the city tried to raise money by the sale of new debentures, to redeem its outstanding liabilities, but the attempt has not so far been successful.

Montreal and Quebec are the only municipalities in the province of Quebec whose net debt exceeds \$1,000,000. It will, therefore, be sufficient to give a bare statement of the amount of the respective debts of the other important towns of the province. It should be remembered that no small part of the debt of these towns, as well as of that of other municipalities in the province, consists of debentures, issued under the law of 1880,² to cancel their indebtedness to the Lower Canada Municipal Loan Fund.³

Town or city.	Net debt.	Total assessment.
Hull.....	\$417,400	\$2,504,795
Sherbrooke.....	282,814	3,946,600
Joliette.....	131,450	706,405
St. Hyacinthe.....	423,693	2,924,675
Lachine.....	142,000	1,807,300
Lauzon.....	162,000	1,769,014
Lévis ...	269,000	3,512,641
Ste. Cunégonde.....	505,600	3,213,579
Westmount.....	700,000	7,428,430
Valleyfield.....	198,705	2,307,580
Three Rivers.....	536,124	2,577,675

¹ Report of the Treasurer, City of Quebec, 1895-96, p. 4.

² 43-44 Vict., chap. 13, (Quebec).

³ *Ante*, p. 65.

Local Debts in Other Provinces.

As has been before stated, no reliable statistics of the indebtedness and assessment of the counties and townships of either the western or the maritime provinces are at present available. It is not likely that the amounts are very great, and therefore a statement of the debts of the more important towns will be sufficient to give an approximate idea of the total municipal indebtedness in these provinces.

New Brunswick.—The largest municipal debt in New Brunswick is that of St. John. In 1868 the net debt of this city was \$654,367; in 1880 it was \$1,258,303. Ten years later it amounted to \$2,733,702, and in 1895 stood at \$3,026,748. It should be explained that in 1888 St. John annexed the town of Portland, and that the various liabilities then assumed for that municipality caused an increase of \$1,605,555 in the debt.¹ On December 31st, 1895, the funded debt of St. John was \$3,026,748, which, together with a floating debt of \$431,748, made her total liabilities \$3,457,020.² Of the funded debt, \$1,327,421 was incurred in construction of waterworks, \$238,150 was for sewerage, and the balance for wharfs, piers, bridges and street improvements.³ St. John's credit in the money market is very good, her bonds selling freely at 104-105. In 1894 the city disposed of 4 per cent. sterling bonds for an amount equal to \$528,000 at £99 16s.⁴

The balance sheet of the city of Moncton on the 31st of December, 1895, showed liabilities amounting in the aggregate to \$201,858, of which \$141,500 was general debenture debt, and \$15,500 school debenture debt.⁵ In addition, however, the city has assumed \$60,000 worth of bonds issued by the Moncton Gas, Light and Water Company, and has also issued bonds amounting to \$350,400 for the purchase of the property of the company, thus creating a total bonded indebtedness for gas and water alone of \$410,400.⁶

The capital of New Brunswick is Fredericton, a town with a population of some 8,000 persons. At the end of 1895 its total liabilities were \$251,089, of which \$244,000 was debenture debt, divided as follows:—⁷

¹ Report of the Special Committee of the Council of St. John, 1895, p. 115.

² Accounts of City of St. John, 1895, p. 27.

³ *Ibid.*, p. 9.

⁴ Report of the Special Committee, 1895, p. 116.

⁵ Reports on the city government of Moncton, 1895, p. 3.

⁶ *Ibid.*, p. 13.

⁷ Accounts of the City of Fredericton, 1895, p. 56.

Consolidated debt debentures	\$ 41,000
Sewerage and water “	106,000
Almshouse “	4,000
City of Fredericton “	33,000
School “	60,000

The only other town of importance in New Brunswick is St. Stephen, whose net debt in 1895 amounted to but \$84,500, and whose total assessment in the same year was \$1,124,655. This town has had its waterworks built by an incorporated company to which it pays an annual rental of \$1,800.

Nova Scotia.—In 1868 the net debt of Halifax was \$937,300; in 1885 it was \$1,699,401, while in 1895 it reached a total of \$2,915,916.¹ Of this debt \$2,371,100 consisted of consolidated stock at 4 and 5 per cent., and the balance was made up of \$70,000 sewerage and \$50,000 City Hall debentures, of \$254,600 in debentures issued for public school buildings, and of \$131,666 old water-works debentures. The average rate of interest paid was 4 $\frac{3}{4}$ per cent. The total of the debenture debt just stated includes the cost of water-works up to that date, viz. \$976,906.

In 1880 the debt of the town of Dartmouth was \$16,700, while on the 31st of December, 1895, it amounted to \$326,800; \$138,500 of this was incurred in the construction of waterworks, and \$150,000 more consists of a loan made for the purpose of purchasing a ferry, which is now self-sustaining. In 1895 the sinking fund attached to the issue of sewerage debentures amounted to \$9,540, thus leaving the town's net debt at \$317,260.²

The financial position of the other towns of any importance in Nova Scotia in 1895 may be briefly stated as follows:—

¹ Treasurer's Report, Halifax, 1894-5, p. 293.

² Annual Report of the Mayor of Dartmouth, 1895, p. 5.

Town.	Net debt.	Average rate of interest paid.	Total assessment.
	\$	%	\$
Amherst	127,500	4 $\frac{1}{3}$	1,866,206
Stellarton	5,000	4 $\frac{1}{3}$	221,600
New Glasgow	215,000	4 $\frac{1}{3}$	1,150,000
Parrsborough	8,000	4 $\frac{1}{3}$	412,158
Kentville	39,500	4	487,334
North Sydney	23,510	5	811,200
Lunenburg	82,000	5	1,169,175
Springhill	15,600	4 $\frac{3}{4}$	792,756
Sydney Mines	None.	.....	271,163
Sydney, Cape Breton.....	65,000	7	787,000
Windsor	58,000	4	1,802,510
Truro	92,500	4 $\frac{3}{4}$	1,824,000
Yarmouth ¹	413,000	.....	.....

Prince Edward Island.—The only two municipalities of importance in this province are Charlottetown and Summerside. The debt of the former in 1888 was only \$111,800, the increase in the ten years preceding that date being but \$22,255. The cost of the municipal waterworks of Charlottetown was \$165,000.

The town of Summerside has a population of about 3,000, and a total assessment of \$1,342,620. In 1895 its general debt was \$4,500, but added to this was an issue of school debentures amounting to \$11,500, making the town's total bonded liability \$16,000.²

Manitoba and the Territories.—According to the Municipal Act of Manitoba every by-law for raising money, except it be for a work payable wholly by local assessment, must receive the assent of at least three-fifths of all resident, legally qualified electors, as well as at least three-fifths of all the electors actually voting, before it is considered as passed.³ In cities, however, a majority of all legally qualified electors, as well as three-fifths of those voting, is enough. Except in the case of cities, the whole of the debt must be made payable within twenty years at furthest from the date of the by-law. In cities the debentures may be made payable at any time not exceeding thirty years, except in the case of Winnipeg, which may issue debentures payable at any time within fifty years.⁴ A sinking fund must be provided for in

¹ Report of H. L. Gaudey, Treasurer of Yarmouth.

² Financial Statement of the town of Summerside, 1895, p. 6.

³ R. S. Man., 1891, chap. 100, sec. 397.

⁴ Ibid, sec. 398.

the by-law, except in the case of Winnipeg, where it is not compulsory. No debentures may be issued by any rural municipality so as to make the aggregate debt exceed an amount equal to ten cents per acre of the lands alienated from the Crown within the municipality,¹ and no debt may be contracted which might increase its total indebtedness to such an extent that the amount to be raised annually for all municipal purposes exceeds a rate of $1\frac{1}{2}$ per cent. upon all the taxable property within the municipality.²

The Municipal Act of Manitoba provides that the borrowing powers of the city of Winnipeg shall be restricted to \$3,000,000, until the value of the real estate according to the last revised assessment roll amounts to \$25,000,000, but that the amount of sinking fund for the time being at the credit of the city shall be considered as a reduction of the debt.³ By the same Act it is directed that the management of the city's sinking funds shall be in the hands of three commissioners, two of whom shall be appointed by the Court of Queen's Bench, and the third by the council from among its members.⁴ On April 30th, 1895, the end of the civic fiscal year, the total amount of general debentures outstanding was \$2,464,683. There were also local improvement debentures of \$473,810.⁵ The bulk of the general debenture debt has been incurred for the following purposes:⁶

Sewers, firehall, etc	\$1,057,836
Bridges.....	322,500
C. P. R. bonus	200,000
Streets—widening and paving.....	762 600

In 1895 the total assessment was \$22,168,990, and the rate of taxation 20 mills. The average rate of interest paid on the debt was 5.62 per cent.⁷

In 1895 the net debt of Brandon was \$528,053, and its total assessment \$3,098,138. The debt had been only \$73,986 in 1882, by 1890 it had increased to \$263,055, and in the last five years it has doubled. In 1893 the town built waterworks at a cost of \$15,000.

¹ R. S. Man., 1891, chap. 100., sec. 403.

² *Ibid.*, sec. 404.

³ *Ibid.*, sec. 566.

⁴ *Ibid.*, sec. 556.

⁵ Comptroller's Report, City of Winnipeg, 1895, p. 177.

⁶ *Ibid.*, p. 189.

⁷ *Ibid.*, p. 194.

In the North-west territories the principal towns are Calgary (population 4,000), and Prince Albert (1,500). The net debt of the former is \$83,300; it possesses waterworks, built at a cost of \$100,000. The net debt of Prince Albert is \$28,200, and its total assessment \$806,528.

British Columbia.—In British Columbia two restrictions are placed upon the borrowing power of municipalities: first, the aggregate of the debts of any municipality must not exceed thirty per cent. of the realty assessment according to the last revised assessment roll, and second, by-laws for raising money on the credit of any municipality require the assent of a majority of the electors, only ratepayers being allowed to vote.¹

The capital of British Columbia is Victoria, which, though a young city, has grown very fast. In 1895 the total bonded debt amounted to \$1,824,000 and the total assessment to \$16,757,805. The principal items which have helped to roll up this debt have been the following:²

Waterworks	\$545,000
Sewers and drains	560,000
Lighting	71,000
Streets and bridges	170,000

The average rate of interest paid on the debt is 5 per cent. On the 31st December, 1895, the balance sheet of the corporation showed an excess of liabilities over assets amounting to \$1,425,692.³

In 1890 the net debt of New Westminster was \$286,420, and in 1895 it amounted to \$890,262. In this debt are included three issues of waterworks debentures of a total value of \$455,000, and \$116,000 of electric light debentures. The sum of \$155,000 has been spent in aid to railways and the balance of the debt has been contracted in making streets, improving parks, etc.⁴ In 1895 bonds were issued for a new loan of \$20,000, and they sold at a premium of 10.10, showing that the corporation possesses first-rate credit.⁵

Since 1887 the net debt of Vancouver has increased from \$191,000 to \$571,000. During the same time, however, the total assessment has gone up from \$2,619,877 to \$15,253,874. The average

¹ B. C. Consolidated Acts, 1888, chap. 88, sec. 91-92.

² Financial Report of the city of Victoria, 1895, p. 73.

³ *Ibid.*, p. 74.

⁴ Financial statement of the city of New Westminster, 1895, p. 19.

⁵ *Ibid.*, p. 1.

rate of interest paid on the bonded debt during the past five years has been 5 per cent.

We have now reached the conclusion of the account of local debts in Canada. From the statements given above it must be apparent that municipal indebtedness in the Dominion has increased rapidly. It may be noted that, should a municipality allow its securities to go to default, the remedy which the bondholders have under Canadian law is clear. In every municipality the ratepayers and their property are liable to assessment to meet the indebtedness under the bonds, and on a judgment obtained and a writ issued the sheriff may make such assessment and levy the taxes under it.





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